EDISON

Team Internet

Upgrading FY25 EPS by 7% on Shinez

Q1 results and acquisition

Software and comp services

While the weak advertising market suppressed growth in Online Marketing in the (seasonally quiet) Q1, Online Presence continues to perform robustly and group margins continue to expand. The acquisition of Shinez is now complete and should add further robustness to Team Internet's revenue profile, diversifying its partnership base and creating good opportunities to capture more value in the conversion funnel. We leave our standalone estimates unchanged, but upgrade FY24 and FY25 EPS by 5% and 7% to reflect the acquisition of Shinez.

Year end	Revenue (US$m)	EBITDA* (US$m)	PBT* (US$m)	Diluted EPS* (c)	DPS (p)	EV/EBITDA (x)	P/E (x)
12/22	728.2	86.0	64.3	15.4	1.0	6.6	12.2
12/23	836.9	96.4	80.1	22.4	2.0	5.8	8.4
12/24e	983.6	109.8	89.6	27.1	2.3	5.1	7.0
12/25e	1,081.8	116.8	96.6	29.0	2.5	4.8	6.5

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Steady start, changing mix, expanding margins

Team Internet's Q1 results reflect a shift in mix towards the company's higher-margin businesses. Gross revenues grew by 1% to $195.9m, with Online Marketing reducing by 2.5% y-o-y to £145.9m, suppressed by the weak advertising market, while Online Presence grew 10.6% to $50.0m. EBITDA grew by 4% to $22.2m (11.3% margin vs 10.9% in Q123) and operating profit by 44% to $11.1m. Operating cash conversion at 80% was affected by cash receipts from a major customer being collected in April, but is expected to normalise to 100% for the rest of the year. With $11.5m worth of shares bought back over the quarter, net debt was $80.6m (vs $74.1m at FY23).

Shinez boosts EPS, scope for revenue synergies

Our underlying estimates are largely unchanged, with the Shinez acquisition adding 5% and 7% to FY24 and FY25 EPS respectively. This does require an element of catch up from Online Marketing operations, but key events such as the US elections and the Olympics are expected to boost the advertising market. Visitor sessions increased by 19% in Q1, so Team Internet looks to be in a good position once demand recovers. We see good scope for revenue synergies from Shinez and between other online marketing entities through greater vertical integration through the e-commerce conversion cycle as the company develops its Omni-media, Omni-monetisation (OM^2) strategy.

Valuation: Discount valuation looks unjustified

On our revised estimates, Team Internet trades at an EV/EBITDA multiple of 5.2x and a P/E of 7x. On a fundamental basis, we believe that this is remains too low for a business with Team Internet's track record, prospects and cash generation. It is at a slight discount to global ad-tech peers to the online marketing business and a very significant discount to the online presence peers (albeit a small subset).

13 May 2024

Price	**£1.52**
Market cap	**£399m**
	US$1.25/£
Net debt ($m) at 31 March 2024	80.6
Shares in issue (excluding treasury shares)	259.2m
Free float	76%
Code	TIG/TIGXF
Primary exchange	AIM
Secondary exchange	OTCQX

Share price performance

%	1m	3m	12m
Abs	7.9	12.5	36.8
Rel (local)	2.1	1.5	25.9
52-week high/low		152.2p	109.0p

Business description

Team Internet Group is a global internet company that derives recurring revenue from privacy-safe, AI-based customer journeys that help online consumers make informed choices, as well as from the distribution of domain names.

Next event

H1 trading update	July 2024

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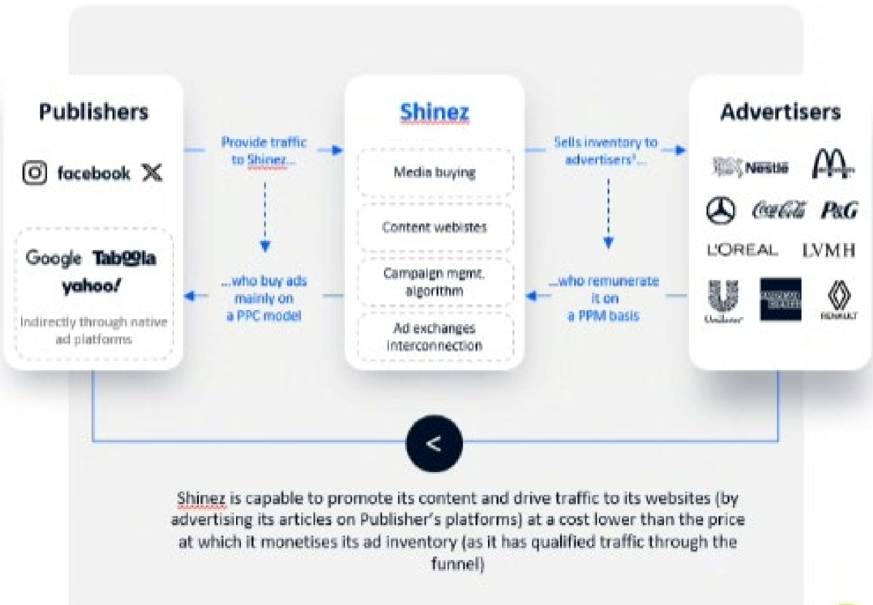
Team Internet is a research client of Edison Investment Research Limited

Shinez: Diversification and vertical integration

The acquisition of Shinez was completed on 29 April and we have updated our forecasts to reflect this. Strategically, the acquisition looks a good fit as the company executes its OM^2 strategy, diversifying the company's partner base and providing comprehensive online marketing solutions across the entire customer journey.

Shinez is a digital content production and promotion company. It operates a network of niche content sites (eg ourfashiontrends.com, falafelandcaviar.com and travelerdreams.com) and listicles (eg how to guides, top 10, 5 tips for…), which are hosted on either the company's demand-side partner's platforms (Facebook, Instagram, X) or on native platforms (Yahoo, Taboola, Google). The company monetises its audience through leveraging its media buying, ad-exchange relationships and programmatic technology platform to display targeted advertising from supply-side partners and charging on a per impression basis.

Exhibit 1: Shinez business model



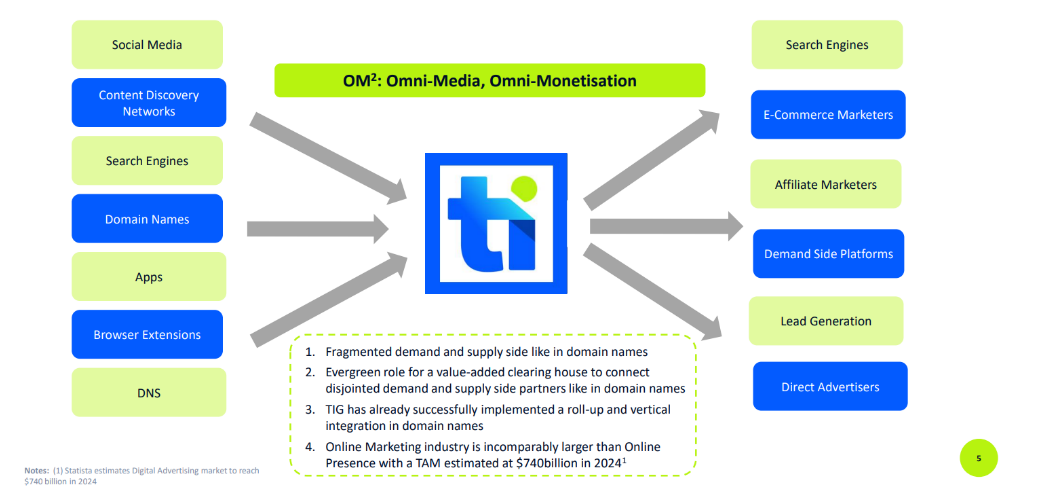
Source: Team Internet

From a diversification point of view, the key media platform partners of Shinez are Instagram, Meta and X, with indirect native access via Taboola, Yahoo and Google. This expands and deepens Team Internet's key platform relationships (via Tonic) with Meta, TikTok and Instagram. With direct relationships with key brands, the Shinez acquisition also more than doubles the Online Marketing segment's revenue generated independently of Google.

Shinez also gives Team Internet capability in the earlier 'awareness' or brand building stage of converting consumers to brands, complementing Tonic, which comes in at the 'consideration' stage, and VGL, for conversion. Management believes that this diversification will also support revenue stability in that budget is allocated to different stages of the funnel depending on seasonality (eg early in the year focus on branding, focus on conversion for the festive season) and economic cycle.

Management also sees good opportunities for creating revenue synergies through vertical integration. These include, for example, delivering ad inventory to the Shinez sites using Tonic, or even selective placement of VGL transaction sites where it is seen not to conflict with the platforms' advertiser customers.

Exhibit 2: Team Internet's Omni-media, Omni-monetisation (OM²) strategy



Source: Team Internet

Q1 results review

Management is confident that Team Internet will meet market expectations for the full year, and our estimates are essentially unchanged excluding Shinez.

Q1's muted growth but continued margin expansion reflect movement in the company's key growth drivers over the period and highlight the benefits of the company's diversification strategy.

Gross revenues grew by 1% to $95.9m, while net revenues (gross profit) grew 4% to $47.6m. EBITDA grew by 4% to $22.2m (11.3% margin vs 10.9%) and operating profit by 44% to $11.1m. albeit supported by a $1.3m foreign exchange gain versus a $1.5m loss last year.

Weak advertising suppresses Online Marketing, but well placed for a recovery

Gross revenues in Online Marketing reduced by 2.5% y-o-y $145.9m, suppressed by the weak advertising market, with gross profit essentially flat at $30.5m. Performance has been affected by the weak advertising market and advertiser uncertainty with TikTok (eg Universal Music dispute and potentially competitors using the threat of a US ban to gain share). As a result, Meta overtook TikTok as the company's largest demand supply partner over the quarter.

Over the trailing 12 months to Q124 (TTM), visitor sessions increased by 19% to 6.0bn, while revenue per thousand sessions (RPM) decreased by 10% to $91, indicating that revenues could recover strongly as demand improves. Key events such as the Olympics and the US elections are seen as good catalyst to drive demand later in FY24.

We also understand that VGL is now performing more strongly, having shifted its strategy towards more paid search in the face of regularly changing algorithms at Google. VGL is now also scaling in France and is expected to generate a small profit in FY24, expanding iinto FY25, which we see as a positive indicator for the unit economics of this business as it internationalises its footprint. Management is now assessing which other market or markets to enter beyond Germany and France.

Online Presence: Robust performance continues

Online Presence sustained its double-digit growth trajectory from last year, with revenues growing by 10.6% to $50.0m driven by the structural shift in demand towards top level domains, where Team Internet is competitively strong, as well as price optimisation initiatives. Gross margins expanded to 34.2% from 33.4% and while the company does not disclose segmental operating margins, management comments that they have improved substantially year-on-year.

Cash conversion expected to normalise

Operating cash conversion at 80% was affected by cash receipts from a major customer being collected in April, but is expected to normalise to 100% for the rest of the year. With the company buying back $11.5m worth of shares over the quarter (average price £1.33), net debt stood at $80.6m versus $74.1m at end FY23. Net debt/EBITDA was 0.95x on a TTM basis pre the Shinez acquisition, and with strong cash generation, we expect it to drop to well below 1x (0.66x) by FY24Y leaving plenty of scope for accretive acquisition, further share repurchases or dividend increases.

Estimate changes

Our estimate changes are set out below. Our underlying estimates are largely unchanged, with Shinez providing mid to high single-digit EPS accretion in FY24 and 25. Our FY24 estimates do require an element of catch up from Online Marketing operations but, as discussed, key events such as the US elections and the Olympics should provide a boost and management is confident of meeting consensus estimates.

Looking further forward, we see good scope for revenue synergies from Shinez and between other online marketing entities through greater vertical integration through the e-commerce conversion cycle, as the company develops its OM^2 strategy.

Exhibit 3: Estimate changes

US$'000	Reported 2023	Y-o-y growth	Old 2024e	New 2024e	Change	Y-o-y growth	Old 2025e	New 2025e	Change	Y-o-y growth
Gross revenue	836,900	15%	909,572	983,572	8.1%	18%	964,461	1,081,806	12.2%	10%
Net revenue	191,100	8%	203,363	218,913	7.6%	15%	209,255	225,492	7.8%	3%
Adjusted EBITDA	96,400	12%	103,017	109,767	6.6%	14%	106,091	116,835	10.1%	6%
EBITDA Margin	12%		11%	11%			11%	11%		
Profit Before Tax (norm)	81,100	26%	87,683	89,646	2.2%	11%	90,682	96,626	6.6%	8%
Profit Before Tax (reported)	29,300	98%	45,083	46,046	2.1%	57%	48,082	54,026	12.4%	17%
Net income (normalised)	67,100	62%	70,147	71,717	2.2%	7%	72,546	77,301	6.6%	8%
Basic average number of shares outstanding (m)	272		262	257			258	258		
EPS - basic normalised (c)	23.22	49%	26.76	27.94	4.4%	20%	28.12	29.97	6.6%	7%
EPS - diluted normalised (c)	22.41	45%	25.79	27.06	4.9%	21%	27.09	29.02	7.2%	7%
Revenue growth (%)	14.9		9.1	17.5			6.0	10.0		
Gross Margin (%)	22.8		22.9	21.5			21.7	20.8		
Adjusted EBITDA margin (%)	11.5		11.3	11.2			11.0	10.8		
Adjusted EBITDA/net revenue (%)	50.4		49.5	50.1			50.7	51.8		
Closing net debt/(cash)	74,127	15%	35,109	71,964			(23,618)	5,852		

Source: Edison Investment Research, Team Internet data

Valuation

On our revised estimates, Team Internet trades at an FY24 EV/EBITDA multiple of 5.2x and a P/E of 7x, with the shares re-rating upwards only slightly, as earning upgrades have offset the 21% rally in the shares since the start of FY24. On a fundamental basis, we believe that this remains too low for a business with Team Internet's track record, prospects and cash generation. The estimated FY24 unlevered free cash flow yield is 16%.

The net debt/EBITA rating of 1x means the company has plenty of scope to deliver further accretion through further buybacks or additional accretive acquisitions or dividend increases, while a market recovery or revenue synergies could drive organic upside. Management's upper threshold for Net debt / EBITDA is 2x.

The valuation is a substantial discount to the company's global ad-tech peers, which trade at a median forward year EV/EBITDA of 8.4x and a P/E of 12x. The relative outperformance of Online Presence is also interesting given the higher peer multiples of this segment, at 16.5x EBITDA and 25x P/E on a one-year forward basis.

Exhibit 4: Financial summary

$'k	2021	2022	2023	2024e	2025
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Gross Revenue	410,540	728,237	836,900	983,572	1,081,806
Cost of Sales	(292,041)	(550,541)	(645,800)	(764,659)	(856,314)
Gross Profit (net revenue)	118,499	177,696	191,100	218,913	225,492
EBITDA	46,251	86,024	96,400	109,767	116,835
Normalised operating profit	42,737	83,045	93,100	105,331	112,311
Amortisation of acquired intangibles	(18,291)	(36,399)	(38,800)	(38,100)	(38,100)
Exceptionals	(7,087)	(7,395)	(8,500)	(1,000)	0
Share-based payments	(5,006)	(5,698)	(4,500)	(4,500)	(4,500)
Reported operating profit	12,353	33,553	41,300	61,731	69,711
Net Interest	(10,798)	(18,736)	(13,000)	(15,685)	(15,685)
Joint ventures & associates (post tax)	0	0	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	31,939	64,309	80,100	89,646	96,626
Profit Before Tax (reported)	1,555	14,817	28,300	46,046	54,026
Reported tax	(5,097)	(16,895)	(5,000)	(17,929)	(19,325)
Profit After Tax (norm)	25,551	41,409	67,100	71,717	77,301
Profit After Tax (reported)	(3,542)	(2,078)	23,300	28,117	34,701
Minority interests	0	0	0	0	0
Net income (normalised)	25,551	41,409	67,100	71,717	77,301
Net income (reported)	(3,542)	(2,078)	23,300	28,117	34,701
Basic average number of shares outstanding (m)	227	266	272	257	258
EPS - basic normalised (c)	11.24	15.59	23.22	27.94	29.97
EPS - diluted normalised (c)	10.91	15.44	22.41	27.06	29.02
EPS - basic reported (c)	(1.56)	(0.78)	8.56	10.95	13.45
Dividend (p)	0.00	1.00	2.00	2.33	2.50
Revenue growth (%)	71.0	77.4	14.9	17.5	10.0
Gross Margin (%)	28.9	24.4	22.8	22.3	20.8
EBITDA Margin (%)	11.3	11.8	11.5	11.2	10.8
EBITDA/Net Revenue (%)	39.0	48.4	50.4	50.1	51.8
Normalised Operating Margin	10.4	11.4	11.1	10.7	10.4
BALANCE SHEET					
Fixed Assets	271,830	365,062	347,196	366,464	336,483
Intangible Assets	254,169	347,938	327,038	343,838	311,738
Tangible Assets	8,601	7,358	7,258	9,726	11,845
Investments & other	9,060	9,766	12,900	12,900	12,900
Current Assets	128,391	193,650	199,603	206,962	283,868
Stocks	895	646	200	237	265
Debtors	71,363	98,231	106,730	107,789	118,554
Cash & cash equivalents	56,133	94,773	92,673	94,636	160,748
Other	0	0	0	4,300	4,300
Current Liabilities	137,129	197,712	208,300	214,101	227,340
Creditors	117,016	190,348	187,800	193,601	206,840
Tax and social security	0	0	0	0	0
Short term borrowings	18,276	5,456	18,900	18,900	18,900
Lease liabilities	1,837	1,908	1,600	1,600	1,600
Long Term Liabilities	149,110	193,667	184,692	180,892	180,494
Long term borrowings	119,251	145,872	147,700	147,700	147,700
Other long term liabilities	29,859	47,795	36,992	33,192	32,794
Net Assets	113,982	167,333	153,807	178,433	212,517
Minority interests	0	0	0	0	0
Shareholders' equity	113,982	167,333	153,807	178,433	212,517
CASH FLOW					
Op Cash Flow before WC and tax	23,360	54,195	70,400	88,581	96,650
Working capital	4,091	7,245	(7,700)	11,705	2,646
Exceptional & other	15,804	24,434	17,300	20,185	20,185
Tax	(2,230)	(8,399)	(5,600)	(17,929)	(19,325)
Net operating cash flow	41,025	77,475	74,400	102,543	100,155
Capex	(4,810)	(6,543)	(10,200)	(7,967)	(8,006)
Acquisitions/disposals	(18,344)	(81,396)	(5,600)	(53,200)	(200)
Interest paid	(8,695)	(7,766)	(12,100)	(15,685)	(15,685)
Equity financing	0	58,187	(39,700)	(14,730)	0
Change in borrowing	24,721	34,691	15,000	0	0
Dividends	0	0	(3,600)	(6,529)	(7,635)
Other	(3,700)	(30,730)	(24,500)	(2,468)	(2,517)
Net Cash Flow	30,197	43,918	(6,300)	1,963	66,112
Opening net debt/(cash)	84,985	81,394	56,555	74,127	71,964
FX	(2,718)	(5,278)	3,200	0	0
Other non-cash movements	(23,888)	(13,801)	(15,272)	0	0
Closing net debt/(cash)	81,394	56,555	74,127	71,964	5,852

Source: Team Internet, Edison Investment Research

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