Degroof Petercam

Belgium | Media | www.roularta.be

BUY

Price (20/02/2017)	EUR 26.96
Target price	36.00
Risk	High
Reuters	RLRT.BR
Bloomberg	ROU BB
Shares number (m)	13.14
Market cap. (m)	354
Net debt 12/16e (m)	53
Net debt/EBITDA 12/16e	2.73
1 year price perf.	22.8%
Diff. with Euro Stoxx	6.5%
Volume (sh./day)	4,033
H/L 1 year	27.78 - 22.01
Free Float	17.0%
Bestinver Gestion	9.9%
Koinon NV	57.7%
West Investment Holding	15.4%

Company description

Roularta is market leader in Belgium in news and special interest magazines, and free sheets. Other activities include third party printing, and commercial television & radio via a 50% stake in Medialaan Group

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Roularta

Let's do it!

- **Dutch media firm TMG is targeted by two predators**. In December 2016, Mediahuis and VP Exploitatie together made an offer of EUR 5.25 p/s. In January 2017, Talpa made an offer of EUR 5.90 per share, which was recently matched by Mediahuis/VPE. TMG is currently studying both offers, which represent take-out multiples of 11.5x P/E and 6.3x EV/EBITDA when adjusted for synergies. This is in line with 2018 multiples for the Printed Media sector.

- **Roularta at TMG multiples? Target price of EUR 44-46 p/s!** In previous reports we highlighted Roularta's complex corporate structure, which includes a lot of hidden value that we believe will not be unlocked without corporate activity. Should someone be willing to make an offer for the company as a whole, they would have to pay between EUR 44-46 p/s. However, should the predator be complimentary to the prey, synergies could add up to an extra EUR 3 p/s.

- **Corporate activity always triggers the imagination**. Mid 2015, management sold the loss-making French activities and Roularta got back in shape. In response, the share price rallied strongly. We believe the time has come for the next step. We have identified two scenarios that should unlock hidden value, and one scenario that would allow management to take the company private.
    1) Buy the remaining 50% in Medialaan. This would enhance 2019e EPS by 24% on a normalized basis. It should also trigger a re-rating because of simplification, improved transparency, full ownership and control, and mass. This suggests a target price of at least EUR 46.
    2) Sell the 50% stake in Medialaan. This would depress EPS by 67%, it would result in a target price of EUR 11.7 for Printed Media and net cash of EUR 32.0 p/s for an overall target price of EUR 44.
    3) Lever up to 1.5x EBITDA to buy back the free float. This would allow management to take the company private without having to pay a premium to the current share price.

- **We lift our target price to EUR 36 (from EUR 29). Buy rating reiterated**. We attribute a 30% chance that management will act upon one of the two scenarios that we have painted, and a 70% chance that they will not. Set against the respective target prices of EUR 45 and EUR 33 (raised vs. our former target price of EUR 29), we get to an average of EUR 36. This is our new target price, which offers 34% upside. Buy!

EUR	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	712.0	676.3	299.6	290.2	280.3	280.3	280.3
EBITDA	31.4	14.0	12.7	23.9	19.2	19.8	20.4
Adj. profit	15.5	9.6	19.4	30.2	28.7	30.8	32.9
EPS	1.24	0.77	1.56	2.42	2.30	2.47	2.63
Div.	0.00	0.00	0.00	0.50	0.50	0.55	0.60
EV/EBITDA	7.0	16.4	2.4	5.6	6.2	7.2	6.4
EV/EBITA	13.6	nm	7.7	9.3	11.9	13.4	11.6
P/E	8.3	13.9	7.9	10.1	10.6	10.9	10.2
Div. Yield	0.0%	0.0%	0.0%	2.0%	2.1%	2.0%	2.2%

Roularta Media Group

COMPANY PROFILE

Roularta Media Group (Roularta) is a Belgian publishing and printing company with 2015 sales of EUR 290m. The company is market leader in Belgium in news and special interest magazines, and free sheets. It also operates Belgium's largest offset printing equipment for production of newspapers, magazines, and catalogues for internal and external clients in Belgium and abroad. At the end of June 2016, Roularta had 1,331 employees.

Roularta also holds a 50% stake in Medialaan, a Belgian broadcaster that focuses on TV and radio, which boosted its position in mobile telephony (MVNO) through the acquisition of Mobile Vikings. In 2015, Medialaan had sales of EUR 307m, EBITDA of EUR 61m (margin 20%), EBIT of EUR 53m (margin 17%), and net profit of EUR 36m. We estimate it to have had a net cash position of EUR 13m.

Management has not issued guidance for FY 2016. They expect to be net cash by the end of 2018.

INVESTMENT CASE

Dutch media firm TMG is hunted by two predators. Take-out multiples appear in line with sector multiples for 2018, when adjusted for synergies.

Roularta's complex corporate structure includes hidden value. This value is embedded in participations, notably in the 50% stake in Medialaan. We do not expect it to be unlocked without corporate activity.

Roularta at TMG multiples? Target price EUR 44-46. Should predator and prey be complimentary, synergies could add another EUR 3.

Corporate activity triggers the imagination. We have identified two scenarios that could unlock hidden value, and one scenario that would allow management to take the company private without having to pay a premium to the current share price.

Target price raised to EUR 36. We attribute a 30% chance that mgt. will act upon one of the two scenarios that we have painted, and a 70% chance that they will not. Set against the respective target prices of EUR 45 and EUR 33, we get to an average of EUR 36. This is our new target price, which offers 34% upside. Buy!

VALUATION

Target price: Our target price of EUR 36 is based on the average outcome of a stand-alone scenario (EUR 33) and a scenario in which management takes action to unlock hidden value (EUR 45), set at a probability of respectively 70% and 30%.

Stand-alone: Our target price of EUR 33 is the average outcome of our DCF-model and valuation based on target multiples. This includes a 35% discount for the valuation of participations in Medialaan and Bayard, and it includes a positive impact from Roularta's tax losses. We have raised our target price because of higher Audiovisual multiples, and because we have rolled our valuation model forward by one year.

M&A scenario: We believe a purchase of the remaining 50% in Medialaan at sector-average multiples, or a sale of the company's own 50% stake, would unlock significant value. Our calculations point to a target price of EUR 45.

SWOT ANALYSIS

Strengths

- Strong local market positions
- Broad range of digital ventures
- Balance sheet virtually debt free
- Smooth succession of CEO

Weaknesses

- Circa 95% of sales is in one country
- Printing activities are capital-intensive
- Complex corporate structure
- Limited free float

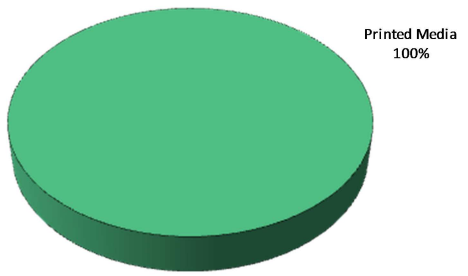
Opportunities

- Cross-selling ads across all units (print, TV, digital)
- Further expansion into the digital realm
- Divest 50% in Medialaan, or buy the remainder
- Share buy backs

Threats

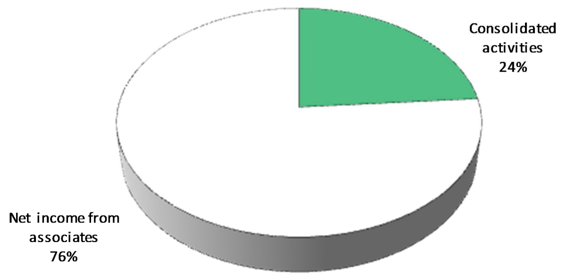
- Shift in news consumption from print to digital
- Printing contract for French mags could terminate
- Medialaan's limited track record in telecom
- Amazon Prime, HBO, Hulu, Netflix, The Sith

Sales by business (2017e)



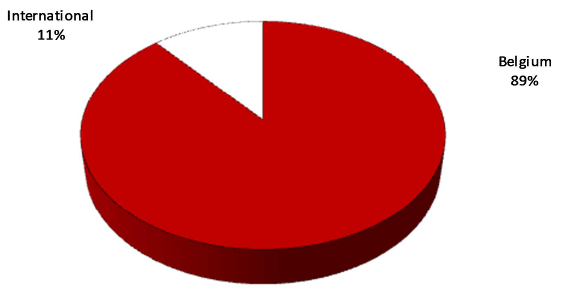
Source: Roularta, Degroof Petercam

Net profit by business (2017e)



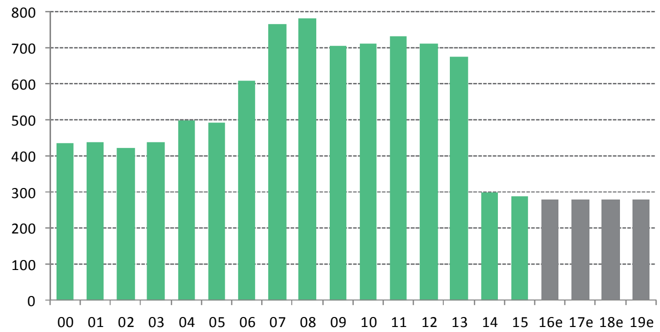
Source: Roularta, Degroof Petercam

Sales by region (2017e)



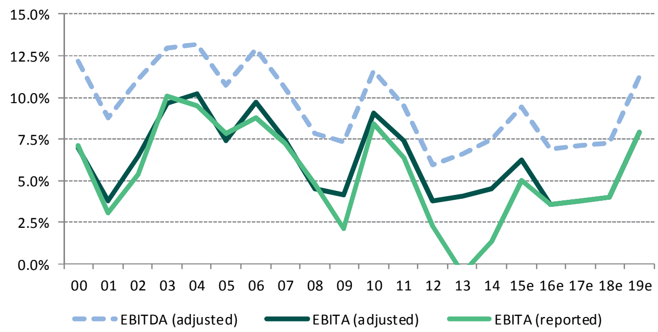
Source: Roularta, Degroof Petercam

Sales (EUR m) *



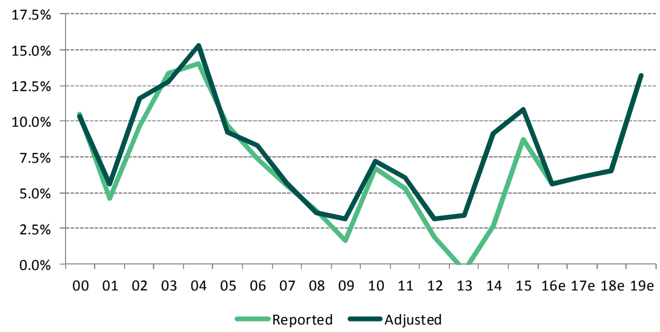
Source: Roularta, Degroof Petercam; * Prop. consolidation ended in 2014

Operating margins



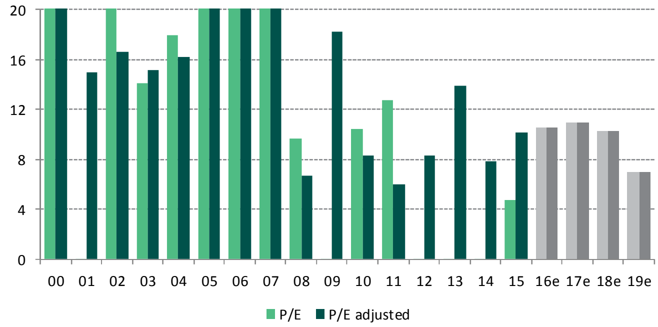
Source: Roularta, Degroof Petercam

ROIC (post-tax)



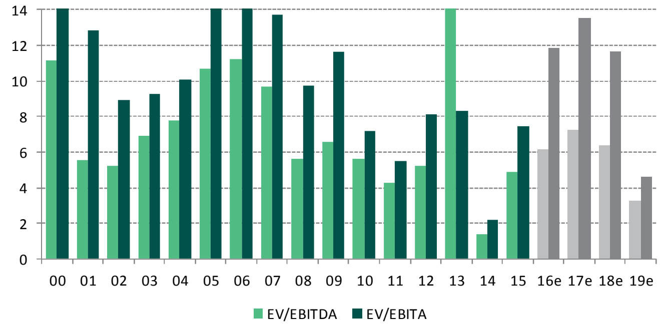
Source: Roularta, Degroof Petercam

P/E multiples



Source: Roularta, Degroof Petercam

EV/multiples



Source: Roularta, Degroof Petercam

Chapter I: The hunt for TMG

Dutch media conglomerate TMG is targeted by two predators

On 14 December 2016, TMG (TMG NA, no rating) announced it had received an unsolicited non-binding, conditional proposal from Mediahuis and VP Exploitatie for the acquisition of all issued and outstanding depository receipts of TMG at an indicative offer price of EUR 5.25 (cum dividend) in cash per depositary receipt in TMG.

On 23 January 2017, TMG announced it had received an unsolicited non-binding, conditional proposal from Talpa Holding BV for the acquisition of all issued and outstanding depository receipts of TMG at an indicative offer price of EUR 5,90 (cum dividend) in cash per depositary receipt in TMG.

On 19 February 2017, TMG announced that, as part of the non-binding, conditional offer from Mediahuis/VPE, it has received in increase of the indicative price for all outstanding and issued certificates of TMG from EUR 5.25 to EUR 5.90

At present, the supervisory board and executive board of TMG are reviewing and considering both proposals. "*Further announcements will be made if and when required*."

Talpa and TMG are friends with benefits

In January 2016, TMG and Talpa announced their intention to join forces in radio (bundling operations), television (TMG participating in Talpa's stake in SBS), and joint development of an OTT-offer (over-the-top: digital content distribution). As part of the deal, TMG would make a cash investment of EUR 27m.

In July 2016, the companies provided an update: (1) TMG and Talpa will merge all of their radio activities, including Talpa's stake in One Media Sales (Dutch radio advertising sales agency). Talpa will hold 77.15% in the new radio company and TMG will hold 22.85%. The latter can be raised to at most 25%. (2) TMG has the option of taking a 15% stake in Talpa Broadcasting, which provides an indirect stake in SBS, if Talpa increases its stake in SBS to a controlling interest. SBS operates four television channels in the Netherlands and is owned 33/67% by Talpa and Sanoma. (3) TMG announced a first step into OTT Television by launching a television app on Apple TV. (4) The cash investment of EUR 27m no longer applies.

In October 2016, the companies announced that the merger of the radio operations was approved by the market regulator and by the worker's councils.

Mediahuis and Talpa are probably chasing different interests

Mediahuis' activities include (1) publication of local, regional, and national newspapers in Belgium and the Netherlands, in print and digital, as subscriptions and free sheets, (2) digital platforms for special interests like jobs, cars, real estate, online shopping, expats, and business. This resembles the following TMG's divisions:

- TMG National Media: (49% of 2015 group sales ex Radio): national daily and weekly newspapers, free sheets, and magazines, in print and digital, and video productions;
- Holland Media Combination (20% of sales): regional daily and weekly newspapers, (local) websites, apps, events and fairs, (regional) specials and magazines.

We believe a combination of Mediahuis and TMG would enjoy sales and costs synergies in cross-selling, content creation, back-office, printing, distribution, and development of digital products and services. The participation in Talpa Radio and the Keesing Media division (14% of 2015 sales ex Radio) would probably not fit, and could thus be divested.

Talpa Holding's activities include (1) 77.15% in Talpa Radio, which is the radio JV with TMG, (2) 33% in SBS Broadcasting, which operates four Dutch television channels, (3) Talpa Digital which is responsible for cross-media rollout of program concepts, and (4) Talpa Music which involves production, publishing, exploitations, licensing, and consultancy. Talpa Media, which develops and produces television formats, is no longer part of the company after having been sold to ITV plc.

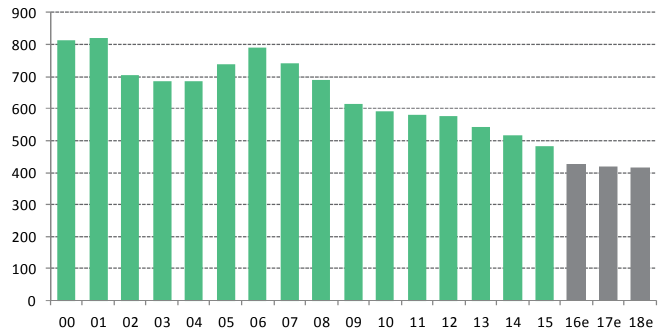
There is obviously common grounds in the 22.85% stake that TMG holds in the Talpa Radio JV, and the joint development of the OTT-offer. We cannot imagine Talpa being interested in newspapers, free sheets, and magazines as a product (68% of 2015 sales ex Radio), but the embedded content (editorial staff and brand names) should be worthwhile for monetising television and OTT-platforms. As such there would be possibilities for cross-selling, content sharing, and development of digital products and services. The Keesing Media division (14% of sales) would probably not fit, and could thus be divested.

We believe that teaming up with Mediahuis could offer TMG more in sales synergies, cost synergies, and continuity of the current operations. However, we also believe that teaming up with Talpa could offer TMG more in product development and digitalization, at the expense of an owner that probably has little to no experience in publishing of newspapers, free sheets, and magazines.

Northern hunting grounds: 'Winter is coming'

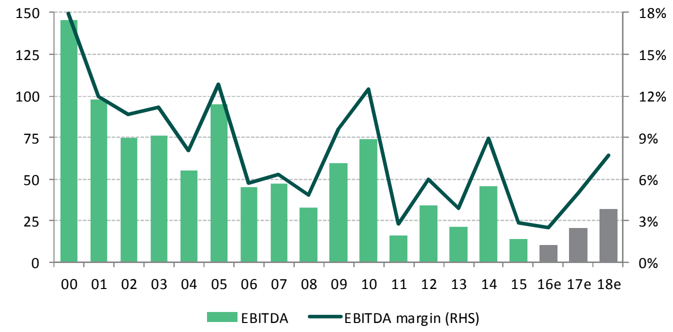
TMG's sales and operating profits have been migrating south for almost a decade now (charts 1-3). The main culprit is the shift in consumer demand from traditional media towards digital media. Management has been expanding into the digital realm but so far this has not turned the tide. Restructuring has been ongoing in order to lower the cost base (chart 4).

Exhibit 1 TMG sales (EUR m)



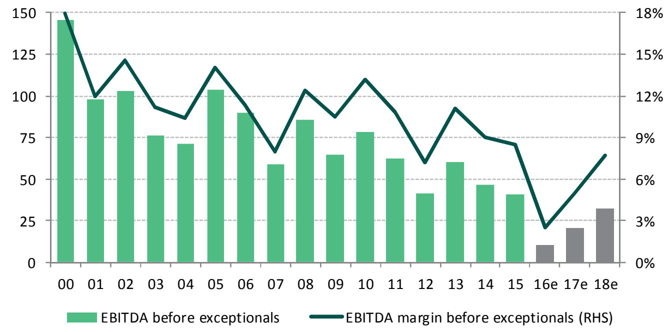
Source: TMG, Degroof Petercam; Estimates: Bloomberg CSS

Exhibit 2 TMG EBITDA (EUR m) and EBITDA margins (%)



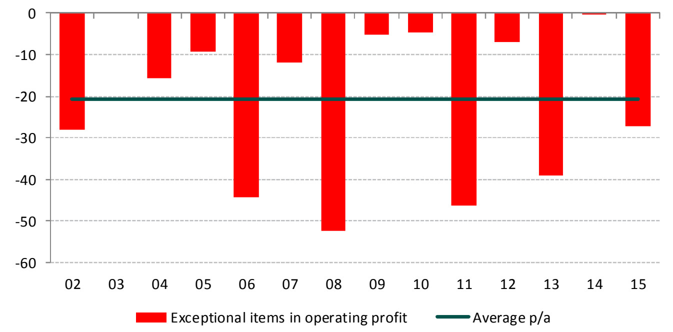
Source: TMG, Degroof Petercam; Estimates: Bloomberg CSS

Exhibit 3 TMG EBITDA before exceptional items (EUR m / %)



Source: TMG, Degroof Petercam; Estimates: Bloomberg CSS

Exhibit 4 TMG exceptional items (EUR m)



Source: TMG, Degroof Petercam

TMG's profitability slipped further in H1-16

In H1-16, sales decreased by 7% y/y of which -3% was from rationalization and downsizing of the product portfolio, and -4% was from a decrease in comparable sales (lower advertising spend). Because the cost base is largely fixed, operating profits were hammered: EBITDA dropped to EUR 8m from EUR 16m the year before, resulting in a margin of 3.9% (7.3% in H1-15). In response, management launched another round of restructuring.

Meanwhile management is breeding a herd of white rabbits

In September 2016, TMG held an investor day in which they set the following targets for 2019:

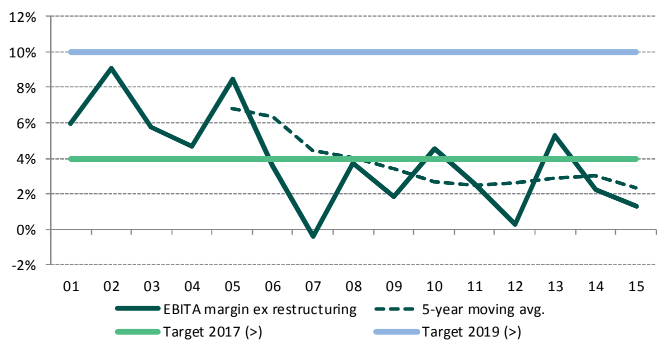
- A double-digit EBIT margin (1.3% in 2015, >4% in 2017, >10% in 2019);
- A cost reduction of EUR 90m (EUR 40m in 2017);
- Digital sales >25% of group sales (13% in 2015, >16% in 2017);
- A dividend pay-out of 35% of operational cash flow.

The 1.3% margin as mentioned over 2015 corresponds with our definition of EBITA excluding exceptional costs, whereby EBITA is EBIT + amortisation/impairment of acquired intangible fixed assets. Chart 5 shows that TMG has not been able to reach 10% in any of the past 15 years, and 2016 should be no exception. In addition, the 5-year moving average has not reached the 2017 target of 4% since 2008. The margin targets appear even more out of reach when considering reported margins including restructuring (chart 6).

Management also quantified the latest round of restructuring: EUR 30-40m, which exceeds the average of EUR 21m p/a as reported over 2002-2015. This includes the fifth round of job cuts since 2014, outsourcing of (part of the) print capacity, and rationalization of real estate.

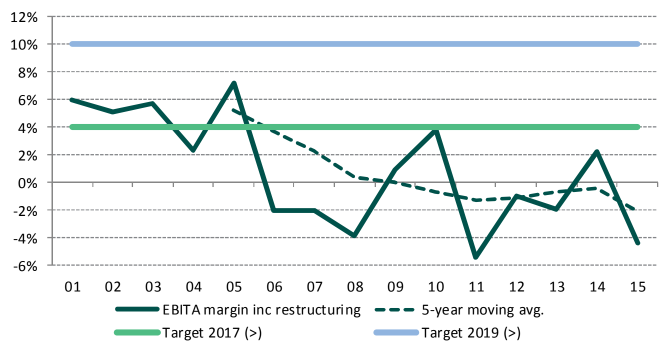
We have our doubts on the feasibility and usefulness of the margin target in view of the company's long history of restructuring and the ongoing challenges that the printed media sector is facing.

Exhibit 5 TMG EBITA margins excluding restructuring (%)



Source: TMG, Degroof Petercam

Exhibit 6 TMG EBITA margins including restructuring (%)



Source: TMG, Degroof Petercam

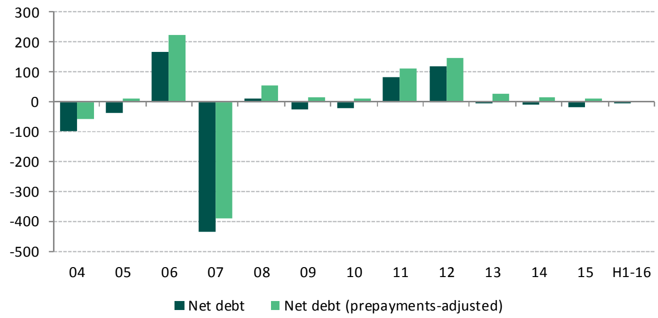
Management also intends to sell their real estate, which could fetch circa EUR 6.5m for eight buildings in Alkmaar, after having sold property worth EUR 5.5m in 2015. They are exploring a sale-and-leaseback of real estate in Amsterdam whose value is said to be worth at least EUR 60-80m. Fetching tens of millions of euros sounds appealing. However, it would result in higher cash opex going forward (rent) so there would be no free lunch. We would consider it very dangerous if the proceeds from a sale-and-leaseback transaction would be returned to shareholders as dividends or share buybacks, given the associated rise in cash opex, the company's track record on sales and profits, and uncertainty on future profitability.

TMG's balance sheet has finally returned to calmer waters

TMG's balance sheet has been virtually cash/debt neutral since year-end 2013. There were large swings from time to time because of cash flows related to acquisitions, disposals, and shareholder returns (charts 7 and 8). Over 2004-2015, TMG sold in total EUR 1,260m in assets, it acquired in total EUR 903m in associates and subsidiaries, and it returned EUR 617m to shareholders through dividends and share buybacks. On balance, this resulted in net outflow of EUR 260m over a period in which net cash shrank from EUR 65m at year-end 2003 to EUR 17m at year-end 2015.

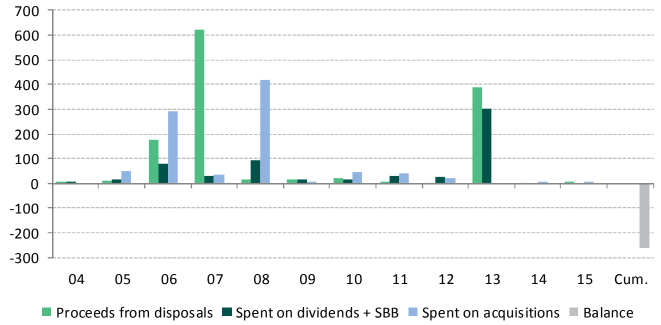
As far as we can tell, the TMG portfolio does not contain any assets with hidden value.

Exhibit 7 **TMG net debt (EUR m)**



Source: TMG, Degroof Petercam

Exhibit 8 **TMG corporate activity (EUR m)**



Source: TMG, Degroof Petercam

Chapter II: Take-out multiples appear generous at first sight

The offer of EUR 5.90 p/s requires synergies to make sense

It is difficult to calculate reliable take-out multiples because of two reasons. (1) Bloomberg consensus estimates for TMG include estimates from only two analysts, which on EPS are so far apart that a Star Destroyer could fly through (table 9). On EBITDA they are more aligned, and the average of EUR 32m for 2018 fits perfectly with the long term slide in EBITDA as shown in charts 2 and 3. (2) There is no public information on potential synergies, which should be embedded in the offer of EUR 5.90 p/s.

On consensus estimates for 2018e, the offer represents 16.9x P/E and 8.3x EV/EBITDA (table 9). This is generous when compared to sector multiples of the past, and to sector multiples for 2018 on the basis of current share prices and consensus target prices (table 10) Hence, we believe that synergies should be considered. Our calculations suggest that circa EUR 10m in synergies is required for the offer to be in line with sector-average multiples. We have limited insight as to whether that is easily achieved. We can imagine synergies to be more easily captured by Mediahuis Group, whose activities appear more complimentary.

Exhibit 9 **Take-out multiples at EUR 5.90 p/s (EUR m)**

	Analyst 1: 2018e	--- Bloomberg --- Consensus 2018e	Analyst 2: 2018e
Current offer (EUR)	**5.90**	**5.90**	**5.90**
EPS (EUR)	0.19	0.35	0.51
P/E (x)	**31.1**	**16.9**	**11.6**
Shares (m)	46.4	46.4	46.4
Market cap	**274**	**274**	**274**
Net debt (cash)	-52	-49	-46
Financial assets *	-1	-1	-1
Pensions *	5	5	5
Minorities *	8	8	8
Prepayments *	29	29	29
EV	**263**	**266**	**269**
EBITDA	**30**	**32**	**34**
EV/EBITDA (x)	**8.8**	**8.3**	**7.8**
Synergies EUR 5m at EBITDA level			
P/E (x)	**21.8**	**13.7**	**10.0**
EV/EBITDA (x)	**7.6**	**7.2**	**6.8**
Synergies EUR 10m at EBITDA level			
P/E (x)	**16.8**	**11.5**	**8.8**
EV/EBITDA (x)	**6.6**	**6.3**	**6.1**

Source: Bloomberg, TMG, Degroof Petercam; * Balance sheet data year-end 2015

In table 10 we show 2018e sector multiples based on 11 companies at current share prices and at Bloomberg consensus target prices. The sector was gradually de-rated over time, which we consider justified because of ongoing deterioration in fundamentals like (organic) sales growth, operating margins, and ROIC.

Exhibit 10 **Printed Media sector multiples (x)**

	--- Average over --- 2000-2005	2005-2010	2010-2015	At current prices 2018e	At target prices 2018e
P/E adjusted	**18.8**	**13.2**	**11.8**	**9.7**	**10.9**
EV/EBITDA adjusted	**9.6**	**8.1**	**7.5**	**5.9**	**6.4**
Sales CAGR *	2.5%	1.3%	-3.8%		
Adjusted EBITDA margin	16.5%	15.9%	13.8%		
Adjusted EBITA margin	11.7%	11.7%	9.1%		
Adjusted ROIC (post-tax)	13.3%	13.8%	9.9%		

Source: Bloomberg, Company reports, Degroof Petercam; * Total sales growth including organic growth, M&A, and FX

Chapter III: RMG and TMG. What's in a name?

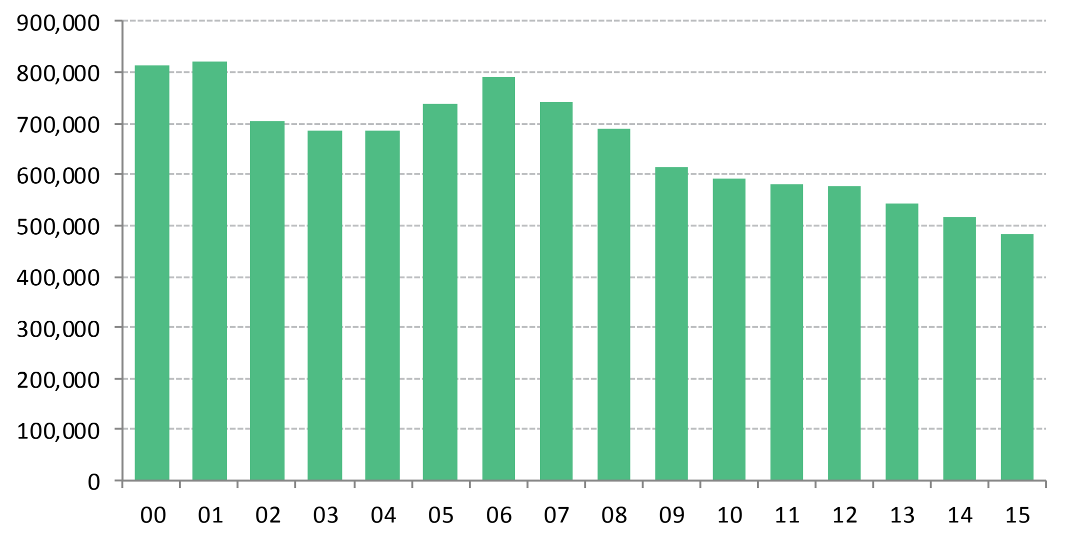
All media companies are equal, but some media companies are more equal than others

Chart 11 illustrates the decline in circulation of TMG's (paid) flagship newspaper title De Telegraaf. Keep in mind though that circulation is not all that matters. Audience reach and digital circulation are also important, but disclosure on said items is sometimes limited, more difficult to verify, and especially difficult to assess from a financial point of view.

Consider the following: a one year subscription to De Telegraaf newspaper will set you back EUR 256 for a paper copy and EUR 119m for a digital copy (source: www.abonnement.nl). The difference in price obviously compensates for lower production costs as a digital copy does not require paper, ink, printing equipment, and logistics. However, a paper edition can be shared with members of the household, the neighbours, and/or colleagues. A digital edition, however, can be shared with anybody that has access to a digital device. Simply provide all your cousins and lovers with your username and password, just like half the subscribers base of Netflix does.

Hence we consider it likely that growth in digital subscriptions is not sufficient to compensate for the decline in paper subscriptions. In addition, news (fake or real) can easily be gathered online for free based on the advertising/banner model. This must also limit the need for many people to subscribe to a newspaper, unlike the past when there was no such things as online news.

Exhibit 11 **De Telegraaf newspaper circulation (units)**



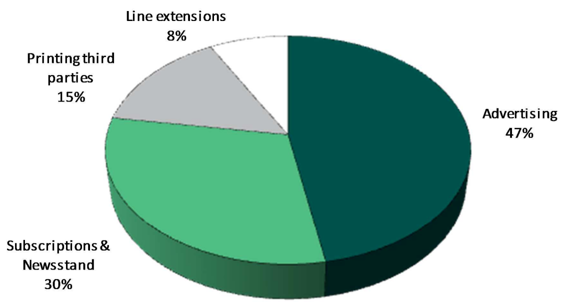
Source: Cebuco, HOI, Degroof Petercam

TMG is more dependent on subscriptions/newsstand than Roularta

Roularta and TMG have many things in common: newspapers, magazines, subscriptions, advertising, digital ventures, printing, and a relatively modest international exposure. Roularta's business model, however, is more skewed towards an advertising model while that of TMG is more skewed towards a paid model (subscriptions + newsstand) as demonstrated in charts 12 and 13.

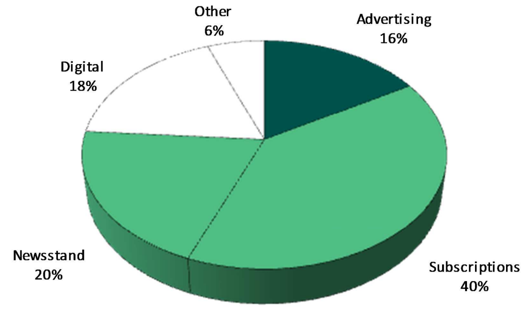
Anecdotal evidence suggests that digitalization of media consumption is happening at a faster pace in the Netherlands than in Belgium (e.g. penetration of smartphones, broadband, Netflix, internet shopping).We believe digitalization is more damaging to a paid model than to an advertising model. As such, we believe TMG is facing tougher trends than Roularta, although the latter is obviously not immune to digitalization.

Exhibit 12 **Roularta sales split H1-16 ***



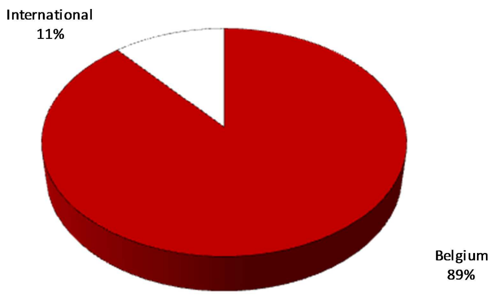
Source: Roularta, Degroof Petercam; * Excluding Audiovisual

Exhibit 13 **TMG sales split H1-16 ***



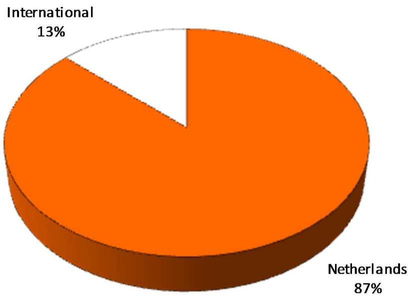
Source: TMG, Degroof Petercam; * Excluding Radio

Exhibit 14 **Roularta sales split 2017e**



Source: Roularta, Degroof Petercam

Exhibit 15 **TMG sales split 2017e**



Source: TMG, Degroof Petercam

Heaven forbid Roularta from making an offer for TMG

Interestingly enough, a combination of Roularta and TMG would probably make just as much sense as a combination of Mediahuis and TMG, as they are complimentary. However, we do not expect Roularta management to be interested in buying TMG, especially not in an all-out bidding war, in view of their campaign in France over the period 2006-2015.

Vica versa we do not expect TMG management to be interested in teaming up with Roularta in view of TMG's 24/7 strategy that promises a great many things on a stand-alone basis.

RMG at TMG multiples? Target price of EUR 44-46!

In previous reports we highlighted Roularta's complex corporate structure, which includes a large amount of value embedded in the participations in Medialaan and Bayard. We believe participations deserve a discount compared to consolidated operations because Roularta does not have full control, the cash flows are not theirs (only the dividends), and transparency is limited. Hence, we believe said value will not be unlocked without corporate activity.

Our view on the underlying value of Roularta and its participations becomes once again visible in a break-up scenario in which we use TMG's take-out multiples for Printed Media, and sector multiples (Audiovisual Media) for the 50% stake in Medialaan (table 16).

We consider TMG's take-out multiples adjusted for synergies as they must be embedded in the offers made by Talpa and Mediahuis/VP Exploitatie. We consider Roularta's 2018 profits adjusted for a lease and a bond, which are strongly depressing profitability and which are no longer needed today, and which should fully disappear as from 2019. On the other hand, we also add depreciation as replacement for termination of the lease, and we add a normal tax-rate of 34%. This way we simulate normalised profitability. We treat the tax losses as a separate cash item on a net present value basis. For more information on these adjustments, we refer to our report from June 2016 ('Tempus fugit').

On TMG's EV/EBITDA multiples our target price for Roularta would be EUR 44. On TMG's P/E multiples, our target price would be EUR 46. The average of EUR 45 slightly exceeds our calculations made in the past.

The calculations in table 16 are based on Roularta's profitability on a stand-alone basis. In a scenario in which a predator's activities and those of Roularta are complimentary, there would be synergies. Our calculations suggest that EUR 5m in synergies would push up the target price by circa EUR 3.

Exhibit 16 Roularta target price at TMG multiples (EUR m)

	TMG multiples including synergies at TMG	TMG multiples excluding synergies at TMG
Roularta EBITDA 2018e	20	20
Normalisation leases	9	9
Normalised EBITDA 2018e	29	29
TMG target multiple: EV/EBITDA	**6.3**	**8.3**
EV	**185**	**244**
Net debt	-7	-7
Pensions	-4	-4
Prepayments	-15	-15
Minorities	-2	-2
Financial assets	3	3
Assets under Construction	0	0
Medialaan + Bayard (NO DISCOUNT, 2018)	360	360
Tax losses (NPV)	32	32
Market cap	**552**	**611**
Shares (m)	12	12
TP at TMG's EV/EBITDA multiple (EUR)	**44**	**49**
Roularta EPS 2018e	2.63	2.63
o.w. EPS Printed Media	0.63	0.63
Normalisation leases, depreciation, bond	0.88	0.88
Normalisation tax rate	-0.51	-0.51
Normalised EPS Printed Media	1.00	1.00
TMG target multiple: P/E	**11.5**	**16.9**
TP Printed Media (EUR)	11	17
o.w. EPS Medialaan	2.00	2.00
P/E Audiovisual Media sector *	**16.0**	**16.0**
TP Medialaan (EUR)	32	32
Tax losses (NPV) (EUR)	3	3
TP at TMG's P/E multiple (EUR)	**46**	**51**
TP average (EUR)	**45**	**50**

Source: Bloomberg, Roularta, TMG, Degroof Petercam; * Based on BB CSS TPs and 2018 CSS estimates

Chapter IV: Corporate activity always triggers the imagination

To Buy, to Sell, or to Delist? That is the question!

We cannot predict if and when management will initiate corporate activity. However, mid 2015, management disposed of the loss-making French activities, as a result of which Roularta got back in shape. In response, the share price enjoyed a strong rally. We believe the time has come for the next step. We have identified two scenarios that should unlock hidden value, and one scenario that would allow management to take the company private without having to pay a premium to the current share price.

Let's do it part I: Buy the remaining 50% in Medialaan

Roularta should not make an offer for TMG. Not today, not tomorrow, not ever. Period!

We do believe, however, that it makes sense to buy the remaining 50% in Medialaan from fellow shareholder De Persgroep, if the latter would be willing to sell. Our calculations suggest that buying the remainder in Medialaan could enhance EPS by 24% on a normalised basis (table 17). This is based on our Roularta and Medialaan estimates for 2019 (the year in which Roularta will be debt free), two adjustments to the Roularta estimates to reflect normal profitability, an acquisition price of EUR 400m on the basis of Audiovisual sector multiples, levering up to 3.0x EBITDA at a coupon of 4%, and the issue of 1.8 million shares at EUR 26 to fund the remainder.

The transaction should initially be value dilutive with a post-tax return of 6.4%, which is a reflection of steep multiples in the sector. However, on several occasions management commented there are cross-media synergies between Roularta and Medialaan. We assume that full ownership allows them to harvest more synergies than at present, thus benefiting profits and returns. Further growth in sales and profits at Medialaan should also help. Hence, we expect a deal like this to be value accretive in say year three or year four.

Exhibit 17 Buying the remaining 50% in Medialaan (EUR m)

	Roularta 2019e A	Adjustment B	Roularta Normalised C = A+B	Medialaan 2019e D	Together again E = C+D *	Funding F	The new Roularta G = E+F
Sales	280		280	333	613		613
EBITDA	31		31	86	117		117
D&A	-9	-3	-12	-9	-21		-21
EBIT	22		19	77	96		96
Financial result	0		0	0	0	-14	-14
PBT	22		19	77	96		82
Taxes	0		-7	-25	-32		-27
Tax rate	0%	34%	34%	-33%	-33%		-33%
PAT	22		13	52	64		55
Associates Medialaan	26		26				
Associates other	0		0	0	0		0
Net profit	48		38	52	64		55
Shares outstanding (m)			12.5		12.5	1.8	14.3
EPS (EUR)			**3.08**				**3.83**
EPS accretion (%)							24%

Source: Medialaan, Roularta, Degroof Petercam; Except for associates and net profit

In table 18 we show what happens to EPS should we use different parameters.

Exhibit 18 What if we use different parameters? (EUR)

Price (EUR m)	EPS	Leverage ratio	EPS	Interest rate	EPS	Share issue at EUR	EPS
350	4.42	**3.0**	**3.83**	5.0%	3.66	28.00	3.86
400	**3.83**	2.5	3.40	**4.0%**	**3.83**	**26.00**	**3.83**
450	3.38	2.0	3.08	3.0%	3.99	24.00	3.79

Source: Degroof Petercam

We believe an acquisition of the remaining 50% in Medialaan would be EPS accretive and it would seriously boost the risk profile because of a simplified corporate structure, full ownership and control of the cash flows, improved transparency, and critical mass. All of this deserves a re-rating compared to the current corporate structure. As such, the share price stands to benefit even more than the percentage of EPS accretion would suggest.

An EPS of EUR 3.83 set against the average Printed Media P/E of 11.5x implies a target price of EUR 44. However, that would not do justice to the much improved profile or the embedded Audiovisual Media activities. A re-rating to 12.0x should be the minimum reward, which would imply a target price of EUR 46. We could argue that a stronger re-rating would be justified considering the dominance of Audiovisual Media within the portfolio (88% of pro-forma net profit vs. 78% today), which enjoys richer multiples than Printed Media (12% vs. 22% today).

Let's do it part II: Sell the 50% stake in Medialaan

A sale of the 50% stake in Medialaan should fetch EUR 400m, just like it would cost EUR 400m to buy 50% as described in the previous section. A sale would lower 2019e EPS on a normalised basis from EUR 3.08 (table 17) to EUR 1.02, simply by removing net income from associates related to Medialaan. We apply the TMG take-out multiple (including synergies) of 11.5x P/E to set a target price of EUR 11.7 for the remaining Printed Media activities. On top of this comes net cash of circa EUR 400m, or EUR 32.0 p/s, for a total target price of EUR 43.7.

Simply put, a sale of the 50% stake in Medialaan would immediately unlock hidden value. The associated cash inflow of EUR 400m could be used for a special dividend, share buy-backs, or acquisitions (not for TMG though!).

Let's do it part III: Lever up and buy back the free float

Another form of corporate activity is levering up. We expect Roularta to be debt free by year-end 2018. Many companies consider a range of 2.0-3.0x net debt/EBITDA as safe. For 2019 we estimate consolidated EBITDA of EUR 31m, and EBITDA of EUR 57m including net income from associates. The latter is the base for Roularta's covenants.

Let's play it slightly safer than safe and lever up to only 1.5x EBITDA instead of 2.0-3.0x. That would bring in EUR 85m in cash. The free float is circa EUR 80-85m. Hence, leveraging up would provide the means to take the company private through share buy backs without having to pay a premium to the current share price.

Taking the company private would immediately reduce opex, and it would allow management to work in peace on their digital strategy without having to explain time and again on the progress of new digital ventures, the associated start-up costs, the time to break-even, and the potential for sales and profitability in the mid-term.

Chapter IV: Target price lifted to EUR 36

"Yes we can" (30%) vs. "No we won't" (70%)

We attribute a 30% chance that management will act upon one of the two scenarios that we have painted, and a 70% chance that they will not. Set against the respective target prices of EUR 45 and EUR 33, we get to an average target price of EUR 36. We use this as our new target price, which offers 34% upside.

We have raised the target price for a stand-alone scenario to EUR 33 (from EUR 29) on the back of (1) a few minor tweaks to our estimates, which have no meaningful impact on our EPS estimates, (2) an increase in multiples of the Audiovisual Media peer group, which enhances the value of the Medialaan participation in our model. Multiples of the Printed Media peer group have remained unchanged, and (3) we have rolled our valuation models forward by one year which has a positive impact on our target price.

Profit & Loss (EUR m)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Revenues	**712.0**	**676.3**	**299.6**	**290.2**	**280.3**	**280.3**	**280.3**
(Y/Y - %)	*-3%*	*-5%*	*-56%*	*-3%*	*-3%*	*0%*	*0%*
EBITDA	**31.4**	**14.0**	**12.7**	**23.9**	**19.2**	**19.8**	**20.4**
EBITA	16.2	-3.4	3.9	14.5	10.0	10.6	11.2
(Ebita margin - %)	*2.3%*	*-0.5%*	*1.3%*	*5.0%*	*3.6%*	*3.8%*	*4.0%*
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	-11.5	-45.8	0.0	-2.2	0.0	0.0	0.0
EBIT	4.7	-49.2	3.9	12.3	10.0	10.6	11.2
Net Financial Result	-8.9	-7.4	-6.8	-5.4	-4.6	-4.1	-3.6
Except. / Discont. operations	-	-	-	-	-	-	-
Pre-tax result	-4.1	-56.6	-2.9	6.9	5.4	6.5	7.6
Taxes	1.2	-1.8	-2.5	46.1	0.0	0.0	0.0
Associates	0.0	-0.2	18.0	19.1	22.5	23.5	24.5
Minorities	0.5	0.7	0.1	-0.1	0.8	0.8	0.8
Net declared earnings	-2.5	-57.9	-142.5	64.1	28.7	30.8	32.9
Net adjusted earnings	**15.5**	**9.6**	**19.4**	**30.2**	**28.7**	**30.8**	**32.9**

Cash Flow (EUR m)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBIT	4.7	-49.2	3.9	12.3	10.0	10.6	11.2
Depreciation	10.5	11.2	4.2	5.4	5.0	5.0	5.0
Amortization	4.7	6.3	4.6	3.9	4.2	4.2	4.2
Impairment	11.5	45.8	0.0	2.2	0.0	0.0	0.0
Changes in provision	2.5	19.0	-4.1	-11.4	0.0	0.0	0.0
Changes in working capital	26.7	-14.5	5.0	-20.1	3.3	0.0	0.0
Others	-	-	-	-	-	-	-
Operational Cash Flow	**60.6**	**18.5**	**13.6**	**-7.6**	**22.6**	**19.8**	**20.4**
Tax expenses	1.2	-1.8	-2.5	-0.1	0.0	0.0	0.0
Dividends from associates	0.0	0.2	22.3	16.7	7.5	7.5	10.0
Net interest charges	-8.9	-7.4	-6.8	-5.4	-4.6	-4.1	-3.6
Others	-14.7	-5.7	-5.8	-6.1	-	-	-
CF from operating activities	**38.2**	**3.8**	**20.7**	**-2.6**	**25.5**	**23.2**	**26.8**
CAPEX	-6.2	-6.3	-3.2	-2.3	-4.0	-4.0	-4.0
Investments in intangibles	-3.8	-4.7	-4.2	-3.2	-3.0	-3.0	-3.0
Acquisitions	-0.7	-2.0	-10.6	-1.6	0.0	0.0	0.0
Divestments	0.5	3.3	0.7	14.1	10.0	10.0	11.0
Others	-42.1	19.7	18.6	1.2	1.0	1.0	1.0
CF from investing activities	**-52.4**	**9.9**	**1.2**	**8.2**	**4.0**	**4.0**	**5.0**
Dividend payment	-4.3	0.0	0.0	0.0	-6.3	-6.6	-7.2
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity financing	-0.2	-0.2	-0.2	0.2	0.0	0.0	0.0
Others	38.5	-20.4	-23.4	1.7	0.0	0.0	0.0
CF from financing activities	**34.0**	**-20.5**	**-23.5**	**1.8**	**-6.3**	**-6.6**	**-7.2**
Changes in consolidation scope	-	-	-	-	-	-	-
Exchange rate impact	-	-	-	-	-	-	-
Net debt/cash change	**19.8**	**-6.8**	**-1.6**	**7.5**	**23.2**	**20.7**	**24.6**
FCF to Enterprise	35.9	2.0	22.6	-2.6	23.1	20.3	23.4
FCF to Equity	28.2	-7.2	13.3	-8.1	18.5	16.2	19.8

Notes As of 2014 the company no longer proportionally consolidates the 50% stake in the Audiovisual activities

Degroof Petercam

Balance Sheet (EUR m)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Fixed assets	**604.7**	**549.9**	**271.8**	**319.0**	**304.0**	**291.8**	**278.1**
Tangible fixed assets	100.4	91.8	60.9	57.0	56.0	55.0	54.0
Goodwill	71.9	41.1	0.0	0.0	0.0	0.0	0.0
Other intang. assets	418.0	403.5	87.6	86.2	85.0	83.8	82.6
Financial fixed assets	7.6	7.5	122.0	155.1	142.2	132.2	120.7
Other fixed assets	6.8	6.0	1.2	20.8	20.8	20.8	20.8
Current assets	**333.8**	**302.2**	**109.4**	**130.6**	**150.1**	**170.7**	**95.3**
Inventories	58.9	56.1	6.2	5.5	5.5	5.5	5.5
Trade receivables	185.7	184.2	66.1	82.3	78.5	78.5	78.5
Other current assets	10.7	11.0	3.3	4.4	4.4	4.4	4.4
Cash & Equivalents	78.5	50.9	33.8	38.5	61.7	82.4	6.9
Discontinued assets	0.0	0.0	151.9	0.0	0.0	0.0	0.0
Total assets	**938.4**	**852.1**	**533.2**	**449.6**	**454.0**	**462.5**	**373.4**
Total Equity	**357.0**	**298.9**	**145.8**	**209.5**	**214.3**	**222.8**	**233.7**
Equity	344.7	287.5	143.3	207.6	212.4	220.9	231.8
Minorities & preferred	12.3	11.4	2.5	1.9	1.9	1.9	1.9
Provisions	134.6	148.1	48.2	12.5	12.5	12.5	12.5
Provisions for pensions	9.8	8.6	4.2	3.5	3.5	3.5	3.5
Deferred taxes	117.1	110.3	27.1	0.5	0.5	0.5	0.5
Other provisions	7.7	29.2	16.8	8.5	8.5	8.5	8.5
Other LT liabilities	-	-	-	-	-	-	-
LT interest bearing debt	129.0	121.1	113.4	111.4	111.4	111.4	11.4
Current liabilities	**317.8**	**284.4**	**128.9**	**116.3**	**115.9**	**115.9**	**115.9**
ST interest bearing debt	19.1	6.1	2.5	2.9	2.9	2.9	2.9
Accounts payables	173.1	163.0	66.8	48.1	47.6	47.6	47.6
Other ST liabilities	125.6	115.3	59.5	65.4	65.4	65.4	65.4
Discontinued liabilities	0.0	0.0	97.0	0.0	0.0	0.0	0.0
Total liabilities	**938.4**	**852.1**	**533.2**	**449.6**	**454.0**	**462.5**	**373.4**

EV and CE details (EUR m)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Market cap.	**135.6**	**141.5**	**160.9**	**322.0**	**319.6**	**354.3**	**354.3**
+ Net financial debt	69.5	76.3	82.0	75.7	52.5	31.8	7.3
(of which LT debt)	129.0	121.1	113.4	111.4	111.4	111.4	11.4
(of which ST debt)	19.1	6.1	2.5	2.9	2.9	2.9	2.9
(of which Cash position)	78.5	50.9	33.8	38.5	61.7	82.4	6.9
+ Provisions (pension)	9.8	8.6	4.2	3.5	3.5	3.5	3.5
+ Minorities (MV)	12.3	11.4	2.5	1.9	1.9	1.9	1.9
- Peripheral assets (MV)	-7.6	-7.5	-8.1	-3.1	-3.1	-3.1	-3.1
+ Others	-0.2	-1.2	-211.3	-265.3	-255.3	-245.3	-233.8
Enterprise Value	**219.5**	**229.2**	**30.2**	**134.7**	**119.1**	**143.2**	**130.1**
Equity (group share)	**344.7**	**287.5**	**143.3**	**207.6**	**212.4**	**220.9**	**231.8**
+ Net financial debt	69.5	76.3	82.0	75.7	52.5	31.8	7.3
+ Provisions (pension)	9.8	8.6	4.2	3.5	3.5	3.5	3.5
+ Minorities	12.3	11.4	2.5	1.9	1.9	1.9	1.9
- Peripheral assets	-7.6	-7.5	-8.1	-3.1	-3.1	-3.1	-3.1
+ Others	-0.2	-1.2	-211.3	-265.3	-255.3	-245.3	-233.8
Capital employed (for ROCE)	**428.6**	**375.1**	**12.5**	**20.4**	**12.0**	**9.8**	**7.6**

Notes Our estimates for EBIT(D/A) exclude net income from associates, unlike the company's reported figures

Per Common Share (EUR)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS (*)	**1.24**	**0.77**	**1.56**	**2.42**	**2.30**	**2.47**	**2.63**
Adjusted EPS (fully diluted)	1.24	0.77	1.56	2.42	2.30	2.47	2.63
Declared EPS	-0.20	-4.64	-11.42	5.13	2.30	2.47	2.63
CFS	2.46	2.17	2.26	3.17	3.04	3.20	3.37
FCF (to Equity)	2.26	-0.57	1.07	-0.65	1.48	1.30	1.59
Dividend	0.00	0.00	0.00	0.50	0.50	0.55	0.60
Book Value	27.16	22.74	11.09	15.94	16.31	16.95	17.78
Shares (m)							
At the end of F.Y.	13.141	13.141	13.141	13.141	13.141	13.141	13.141
Average number	12.483	12.483	12.483	12.486	12.486	12.486	12.486
Fully diluted Average number	12.483	12.483	12.483	12.517	12.486	12.486	12.486

(*) Adjusted EPS : pre-goodwill amortisation earnings, adjusted for post-tax non-recurrent items

Ratios	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Valuation analysis							
P/E	8.3	13.9	7.9	10.1	10.6	10.9	10.2
P/CF	4.2	5.0	5.4	7.7	8.0	8.4	8.0
P/BV	0.4	0.5	1.1	1.5	1.5	1.6	1.5
EV/Sales	0.3	0.3	0.1	0.5	0.4	0.5	0.5
EV/EBITDA	7.0	16.4	2.4	5.6	6.2	7.2	6.4
EV/EBITA	13.6	-66.7	7.7	9.3	11.9	13.4	11.6
EV/EBIT	46.4	-4.7	7.7	10.9	11.9	13.4	11.6
EV/CE	0.5	0.6	2.4	6.6	9.9	14.6	17.2
EV/CE (grossed goodwill)	0.5	0.6	2.4	6.6	9.9	14.6	17.2
EV/FCF (1)	6.1	114.1	1.3	-52.7	5.2	7.0	5.6
FCF yield (2)	20.8%	-5.1%	8.3%	-2.5%	5.8%	4.6%	5.6%
Dividend yield	0.0%	0.0%	0.0%	2.0%	2.1%	2.0%	2.2%
Financial ratios							
Interest cover	1.8	-0.5	0.6	2.7	2.2	2.6	3.1
Net Debt/EBITDA	2.2	5.4	6.5	3.2	2.7	1.6	0.4
Net Debt/Equity	19.5%	25.5%	56.3%	36.1%	24.5%	14.3%	3.1%
Net Debt/FCF (2)	2.5	-10.7	6.2	-9.4	2.8	2.0	0.4
Capital turnover	1.7	1.8	23.9	14.2	23.4	28.7	37.0
ROCE pre-tax	3.8%	-0.9%	31.3%	71.2%	83.9%	108.9%	147.9%
ROCE post-tax	2.7%	-0.9%	58.5%	548.9%	84.3%	108.9%	147.9%
ROCE pre-tax (grossed goodwill)	3.8%	-0.9%	31.3%	71.2%	83.9%	108.9%	147.9%
ROCE post-tax (grossed gdwll)	2.7%	-0.9%	58.5%	548.9%	84.3%	108.9%	147.9%
ROE	-0.7%	-20.1%	-99.5%	30.9%	13.5%	14.0%	14.2%
Working capital (in % of sales)	-6.1%	-4.0%	-16.9%	-7.3%	-8.8%	-8.8%	-8.8%
Payout	0.0%	0.0%	0.0%	20.7%	21.7%	22.3%	22.8%
Margin analysis and tax rate							
Gross margin	33.8%	34.5%	37.5%	39.5%	39.5%	39.5%	39.5%
EBITDA margin	4.4%	2.1%	4.2%	8.2%	6.9%	7.1%	7.3%
EBITA margin	2.3%	-0.5%	1.3%	5.0%	3.6%	3.8%	4.0%
Adjusted profit margin	2.2%	1.4%	6.5%	10.4%	10.3%	11.0%	11.7%
Tax rate	28.1%	-3.1%	-87.0%	-671.0%	-0.6%	0.0%	0.0%
Growth analysis							
Sales	-3%	-5%	-56%	-3%	-3%	0%	0%
EBITDA	-50%	-55%	-9%	88%	-19%	3%	3%
EBITA	-65%	-chg	+chg	271%	-31%	6%	5%
Adjusted profit	-49%	-38%	102%	56%	-5%	7%	7%
Adjusted EPS	-49%	-38%	102%	56%	-5%	7%	7%
Dividend	-chg	-	-	+chg	0%	10%	9%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity

Notes -

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Investment rating system: The Degroof Petercam stock ratings are based on the estimated performance relative to the Degroof Petercam Benelux coverage universe. The total return required for a given rating depends on the risk profile relative to this universe. This risk profile is represented by the Beta, as estimated by the analyst. Low risk stocks have an estimated Beta below or equal to 0.9, Medium risk stocks have a Beta between 0.9 and 1.3 and High risk stocks have a Beta equal to or above 1.3. The required relative performance for a given rating is indicated below. The price targets given and the expected relative performance are always based on a 12 month time horizon.

	SELL	REDUCE	HOLD	ADD	BUY
High Beta >= 1.3	RP<-15%	-15%<=RP<-6%	-6%<=RP<+6%	+6%<=RP<+15%	RP>=15%
Medium 0.9 < Beta > 1.3	RP<-10%	-10%<=RP<-4%	-4%<=RP<+4%	+4%<=RP<+10%	RP>=10%
Low Beta <= 0.9	RP<-6%	-6%<=RP<-2%	-2%<=RP<+2%	+2%<=RP<+6%	RP>=6%

RP : Relative Performance against Degroof Petercam coverage universe

Information about rating distribution and analyst remuneration system can be found at: https://www.petercam.com/indexen.cfm?act=petercam.ssresearch
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