

Digital TV advertising soars: PwC 2022 Outlook

EngageTV is a demand-side automated advertising sales platform to harness connected TV audiences for brands, advertisers and agencies. It spearheads a business operated by Switch Digital Pty Ltd, an independent, privately-owned, mid-tier digital media and creative services agency under the EngageTV, Switch Digital and Optimo Designs banners. EngageTV is a holistic platform that targets audiences across connected TV channels, whether they be broadcast video-on-demand or streaming channels. The outlook for non-linear television advertising is firming with the latest PwC Australian Entertainment & Media Outlook Report predicting that broadcast video-on-demand (BVOD) will grow at a compound annual growth rate (CAGR) of 34.2% through to 2026, compared with an expected CAGR decline of 3.0% for traditional linear television. Moreover, BVOD is predicted to command almost 40% of a \$4.38b total free-to-air television market by 2026, from less than 5% of a \$3.7b market in 2021. PwC has also forecast that the total online video advertising market, which grew 33.1% in 2021 to \$2.74b, will grow at a medium CAGR of 12.13% to \$4.4b by 2026. These two segments are significant to EngageTV which sells advertising across BVOD and video streaming services. We are forecasting EngageTV's gross billings will grow at a CAGR of 48% to \$6.7m by FY26, which could prove conservative.

Business model

Switch Digital operates an integrated business model with its three businesses, EngageTV, Switch Digital and Optimo Designs, providing advertising solutions across both shared and individual clients. The company generates a margin of ~30% on gross billings by its clients. Optimo Designs, a Melbourne-based creative agency with clients across government, property development, finance, fast-moving consumer goods (FMCG) and retail, has been in operation since 1998 and was acquired by Switch Digital in 2010. Switch Digital was established in 2007 by chairman Stuart Simson and provides data insights, media planning and buying, business intelligence, and programmatic and native advertising services to advertisers. EngageTV was established in 2021 to provide advertisers with access to all forms of connected TV and leverages off both Switch Digital's and Optimo's capabilities to present the full advertising experience for clients.

PwC forecasts reflect the shift to ConnectedTV

The annual PwC Entertainment & Media Outlook highlights the shift in advertising dollars from traditional linear television to non-linear television which includes the BVOD channels owned by the traditional linear ad-backed channels (7, 9, 10 and SBS) and other Connected TV apps which are often pre-loaded into smartTVs (Netflix, Amazon Prime, Disney+, AppleTV, Google Play, Kayo, YouTube, Twitch, Binge, Stan, and Foxtel). Based on PwC's estimates, the total online video advertising market, including BVOD) is forecast to surpass traditional FTA television in 2023, with the latter expected to drift down to ~\$3.3b in 2023 from ~\$3.5b in 2022. In contrast, the total online video advertising market is forecast to grow from ~\$3.0b in 2022 to ~\$3.8b in 2023. By 2026, based on PwC's mid-point estimates, the total TV and video advertising market is forecast to reach ~\$7.3b, of which the linear television segment will account for just under 40%.

Valuation of \$28.7m equates to 1.65x FY21 gross revenues

We use the discounted cashflow methodology to value the group given the early-stage nature of EngageTV. Our valuation incorporates a 16% discount rate, reflecting the unlisted nature of the company, its relative size, but also the fact that it has a proven track record of profitability. This derives a base-case valuation of \$28.7m, equating to 1.65x FY21 gross revenues. A defined list of Australian-listed media peers yields a peer valuation range of \$31.2m and \$35.9m for Switch Digital on a median EV/Revenue and EV/EBITDA basis. For more detail, refer to our initiation report [Switch Digital RaaS Positioning Paper 29 March 2022](#) and update report [Switch Digital RaaS Update Report 20 June 2022](#).

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Gross billings	Gross profit	EBITDA adj.*	EBITDA rep.	NPAT adj.*	NPAT rep.	Implied EV/Revenue (x)
06/20a	14.2	4.6	1.4	1.7	1.3	1.3	2.0
06/21a	17.3	4.8	1.6	2.2	1.2	1.8	1.7
06/22f	18.4	5.4	1.9	1.9	1.3	1.3	1.6
06/23f	20.0	6.2	2.6	2.6	1.8	1.8	1.4

Source: Company data, RaaS estimates *Adjusted for one-time items, but includes directors' fees

Media & Advertising

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Upside Case

- Long track record of profitability
- Benefiting from tailwinds in audiences switching away from linear to connected TV
- Delivering lower CPMs to advertisers

Downside Case

- Small player relative to most advertisers and media buying groups
- Alternative technologies could emerge
- Multiple connected TV platforms in the US which could become available in Australia

Board of Directors

Stuart Simson	Chairman/ Founder
Lee Stephens	Director/CEO, Switch Digital/EngageTV
Chelsea Parkinson	Director/CEO, Optimo Designs

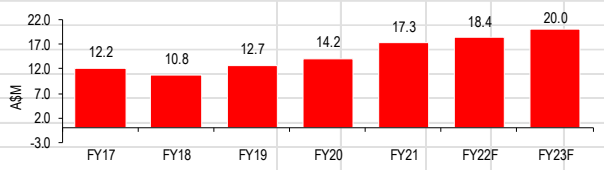
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Exhibit 1: Financial Summary

Switch Digital											
Profit and Loss (A\$m)						Gross Advertising Sales FY17-FY21A and FY22-FY23F					
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F						
Revenue (Gross advertising Sales)	12.7	14.2	17.3	18.4	20.0						
Gross Profit (Net Revenue)	5.0	4.6	4.8	5.4	6.2						
EBITDA	1.7	1.4	1.6	1.9	2.6						
Depn	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)						
Amort	0.0	0.0	0.0	(0.0)	(0.0)						
EBIT	1.7	1.4	1.6	1.9	2.6						
Interest	0.0	0.0	0.0	0.0	0.0						
Tax	(0.5)	(0.3)	(0.4)	(0.6)	(0.8)						
Minorities	0.0	0.0	0.0	0.0	0.0						
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0						
NPAT pre significant items	1.3	1.1	1.2	1.3	1.8						
One time items inc forex gain/losses	(0.0)	0.2	0.6	0.0	0.0						
NPAT (reported)	1.2	1.3	1.8	1.3	1.8						
Balance sheet (A\$m)						Cash flow (A\$m)					
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F
Cash	1.6	2.7	3.2	5.2	6.9	EBITDA	1.7	1.4	1.6	1.9	2.6
Accounts receivable	3.5	2.6	3.4	3.0	3.3	Interest	0.0	0.0	0.0	0.0	0.0
Inventory	0.1	0.0	0.0	0.0	0.0	Tax	(0.5)	(0.2)	(0.6)	(0.6)	(0.8)
Other current assets	0.7	0.7	0.9	0.9	0.9	Working capital changes	(0.1)	1.0	1.4	0.6	(0.1)
Total current assets	5.9	6.0	7.5	9.1	11.0	Operating cash flow	1.2	2.2	2.5	2.0	1.7
PPE	0.2	0.2	0.2	0.2	0.2	Mtce capex	0.0	0.0	0.0	(0.0)	(0.0)
Goodwill	16.0	16.0	20.0	20.0	20.0	Free cash flow	1.2	2.2	2.5	2.0	1.7
Investments	0.0	0.0	0.0	0.0	0.0	Growth capex	(0.0)	(0.1)	(0.1)	0.0	0.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0	Other	0.0	0.0	0.0	0.0	0.0
Total non current assets	16.2	16.2	20.2	20.2	20.2	Cash flow pre financing	1.2	2.1	2.4	2.0	1.7
Total Assets	22.0	22.2	27.7	29.3	31.2	Equity	0.0	0.0	0.0	0.0	0.0
Accounts payable	1.1	1.2	1.7	1.9	2.0	Debt	0.0	0.0	0.0	0.0	0.0
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividends paid	(1.5)	(1.0)	(1.8)	0.0	0.0
Tax payable	0.2	0.3	0.1	0.1	0.1	Net cash flow for year	(0.3)	1.1	0.6	2.0	1.7
Other current liabilities	2.2	1.8	4.1	4.1	4.1						
Total current liabilities	3.5	3.3	5.9	6.1	6.2	Margins, Leverage, Returns	FY19A	FY20A	FY21A	FY22F	FY23F
Long term debt	0.0	0.0	0.0	0.0	0.0	EBITDA	13.7%	10.1%	9.4%	10.2%	12.9%
Other non current liabs	2.9	2.9	1.7	1.7	1.7	EBIT	13.3%	9.6%	9.1%	10.1%	12.8%
Total long term liabilities	2.9	2.9	1.7	1.7	1.7	NPAT pre significant items	9.8%	7.5%	6.7%	7.1%	9.0%
Total Liabilities	6.3	6.2	7.5	7.8	7.9	Net Debt (Cash)	(1.60)	(2.68)	(3.25)	(5.20)	(6.89)
Net Assets	15.7	16.1	20.2	21.5	23.3	Net debt/EBITDA (x)	(0.91)	(1.87)	(1.99)	(2.77)	(2.67)
Share capital	4.3	4.3	4.3	4.3	4.3	ND/ND+Equity (%)	(9.2%)	(14.3%)	(13.8%)	(19.5%)	(22.8%)
Accumulated profits/losses	0.1	0.5	0.6	2.0	3.8	EBIT interest cover (x)	na	na	na	na	na
Reserves	11.2	11.2	15.2	15.2	15.2	ROA	6.8%	6.2%	6.3%	6.5%	8.5%
Minorities	0.0	0.0	0.0	0.0	0.0	ROE	7.9%	8.2%	9.7%	6%	8%
Total Shareholder funds	15.7	16.1	20.2	21.5	23.3	ROIC	11.2%	7.6%	6.6%	7.0%	14.5%
						Working capital	2.50	1.50	1.78	1.14	1.27
						WC/Sales (%)	19.6%	10.6%	10.3%	6%	6%
						Revenue growth	17.8%	11.3%	22.2%	6%	9%
						EBIT growth pa	8%	-19%	15%	18.2%	38%

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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