

FY22 results demonstrate strong margin expansion

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 company has released its preliminary results for FY22 which were largely in line with our estimates. Gross advertising sales for the year were \$18.56m - up 7% and driven by EngageTV and a little ahead of our forecasts -- while net revenues were \$5.33m, in line with our forecast for the year and up 10% on FY21. FY22 EBITDA of \$2.19m was up 17% on the previous corresponding period (pcp) and was ahead of our forecast for \$1.88m. The full accounts will be incorporated into our forecasts once they become available.

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.

FY22 was a year of growth across the board

Switch Digital has reported FY22 EBITDA of \$2.19m which was ahead of our forecast for \$1.88m and up 17% on the \$1.6m reported in FY21. EBITDA includes directors fees and is adjusted for one-time items. The gross profit margin expanded by 100 basis points to 28.7% in FY22. Operating expenditure remained flat for the year, resulting in the EBITDA margin lifting to 11.8% in FY22 over 9.2% in FY21. Management noted that the more mature businesses, Switch Digital and Optimo Designs grew sales 5.0% year on year while EngageTV delivered gross billings of \$1.6m for the year, 68% ahead of budget and well above our forecast for FY22. New client gains within the group for the period included Tupperware, Clean Seas, as well as an FMCG group specialising in snacking and a nutraceuticals brand. An EngageTV trial has commenced with a media group and further independent agencies have been on-boarded to the platform. The platform now incorporates an outcome predictor of advertising spend.

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 reports [Switch Digital RaaS Update Report 20 June 2022](#) and [Switch Digital RaaS Update Report 22 July 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
06/22a	18.6	5.3	2.2	n.a	n.a	n.a	1.5
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

25th August 2022

Upside Case

- Long track record of profitability and innovation
- 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

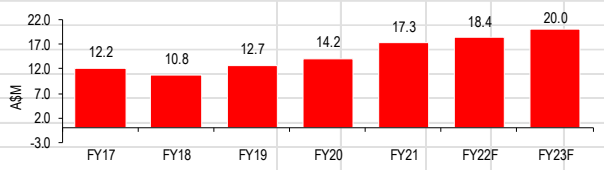
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Exhibit 1: Financial Summary

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, Note FY22 is based on our forecasts in this table. We will adjust once the financial accounts are available.

FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415

of

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ABN 92 168 734 530

AFSL 456663

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- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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