

July 7, 2021

## NORTH MEDIA A/S (NASDAQ COPENHAGEN: NORTHM)

North Media A/S, established in 1965, has built a diverse portfolio of companies that link businesses and consumers, primarily in Denmark and other Nordic countries. Its FK Distribution unit operates Last Mile, a distribution service that delivers direct mail and leaflets to consumers. Its smaller, but fast-growing Digital Services unit includes BoligPortal, a Danish home rental platform; Ofir, a job search platform; and Bekey, a provider of digital access solutions for multistory buildings and private homes.

### COMPANY HIGHLIGHTS

- \* NORTHM: Connecting Businesses and Consumers
- \* North Media has used earnings and cash flow from its mature Last Mile local advertising unit to develop its faster-growing Digital Services businesses, including home rental and job search platforms. The company is also expanding into Sweden and Germany.
- \* We expect the Digital Services unit to post double-digit revenue growth and more than 20% net income growth over the next several years. Digital Services EBIT improved from negative 1.4 million DKK in 2019 to positive 18.4 million DKK in 2020 and the EBIT margin rose to 14.0% from negative 1.3% in 2019.
- \* We believe that North Media's solid cash dividend and commitment to share buybacks have been underappreciated by investors. The current annualized dividend of 5 DKK per share yields more than 4%. Since 2017, North Media has returned nearly 300 million DKK to investors through dividends and stock buybacks.
- \* NORTHM shares are trading at a significant discount to peers based on multiple metrics, including P/E and EV/EBIT. We believe that the stock merits a valuation closer to benchmark averages based on the company's strong EBIT margin, prospects for growth in the digital businesses, and focus on returns to shareholders. Our fair value estimate is 182 DKK, well above the current price of 113 DKK. The 4.4% dividend yield adds to the total potential return.

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### KEY STATISTICS

Key Stock Statistics	
Recent price, DKK (7/6/21)	112.80
52 week high/low (DKK)	126- 55
Shares outstanding (M)	18.1
Market cap (M, DKK)	2042.0
Dividend (DKK)	5.0
Yield	4.4%

Sector Overview	
Sector	Consumer Discretionary
Sector % of S&P 500	12.1%

Financials (\$M, DKK)	
Cash & Mkt Securities	676.2
Debt	131.0
Working Capital (\$M)	613.2
Current Ratio	5.0
Total Debt/Equity (%)	15.0
Payout ratio	0.5
Revenue (M) TTM	1045.0
Net Income (M) TTM	186
Net Margin	17.8%

Risk	
Beta	1.44
Inst. ownership	4%

Valuation	
P/E forward EPS	10.6
Price/Sales (TTM)	2.0
Price/Book (TTM)	2.5

Top Holders	
Gudme Raaschou Asset Management	
Fundamental Fondsmæglerelskab A/S	
Herald Investment Management Limited	

Management	
Group Executive Director/CFO	Mr. Kåre Stausø Wigh
CEO, FK Distribution	Mr. Lasse Ingemann Brodt
CEO, North Media Online	Mr. Henrik Løvig Jensen
Company website	www.northmedia.dk

### PRICE CHART



**COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.**

## INVESTMENT THESIS

North Media, established in 1965, has built a diverse portfolio of companies that link businesses and consumers in Denmark. Its FK Distribution unit operates Last Mile, a distribution service that delivers direct-mail, leaflets, and free weekly newspapers to practically every household in the country. Its smaller, but fast-growing Digital Services unit includes BoligPortal, a market-leading Danish home rental platform; Ofir, a job search platform; and Bekey, a provider of digital access solutions for multistory buildings and private homes. North Media is using cash generated by the established FK Distribution unit (85% of 2020 revenue and 90% of group EBIT) to develop its newer digital businesses. We expect these businesses, which have recently become profitable, to account for up to 25% of revenue over the next 2-3 years, up from 13% in 2020. Over the long term, we also expect North Media to continue its international expansion, with new initiatives in Sweden, Germany, and other markets.

The Last Mile business has a record of solid and stable earnings. It is Denmark's leading distributor of leaflets, local newspapers, and direct mail, and has expertise in sorting, packing, and distributing printed advertising to households. The service has supported brick-and-mortar retailers, which have remained a key part of the Danish economy despite increased digitization. Last Mile reaches up to 2.8 million households as well as 650,000 high-frequency users through a digital distribution platform. Its app has been downloaded by nearly 2 million users.

Last Mile has maintained strong earnings growth despite largely flat revenue. In 2020, revenue fell 2% to 914 million DKK due to the COVID-19 pandemic. In response to the past year's volume decline, the company reduced weekly distribution rounds from two to one and discontinued the development of noncore platforms. As a result, the Last Mile EBIT margin was 25.6% in 2020, up from 18.4% in 2019.

Management expects the core Last Mile business to stabilize following several years of annual volume declines of approximately 8% and has recently rolled out new initiatives to help mitigate these declines. In 2020, it began to provide packing services for Germany's Deutsche Post. FK Distribution packaging uses biodegradable paper wrap to replace the plastic wrap formerly used by Deutsche Post. The company provides packaging for 143,000 households in Flensburg, Germany, and will increase that to 500,000 households by July 1, which we believe represents an additional growth opportunity.

In 2020, Digital Services revenue rose 20% and contributed approximately 13% of total revenue. Digital Services EBIT improved from negative 1.4 million DKK in 2019 to positive 18.4 million DKK in 2020 and the EBIT margin rose to 14.0% from negative 1.3% in 2019. North Media expects the Digital Services segment to generate annual 20% revenue growth and further earnings growth over the next years and reach an EBIT margin of 25% in 2023.

The most well-established Digital Services business is BoligPortal, a market-leading Danish home rental platform that offers services to verified landlords and tenants. BoligPortal has also begun a similar site in Sweden that has the potential for strong growth. In 2020, BoligPortal revenue rose 19% to 82 million DKK, reflecting 15% growth in Denmark and 60% growth in Sweden. EBIT jumped 72% to DKK 27 million, marking the

third straight year of EBIT expansion. The company focuses solely on the rental market and has no activities in the sales market.

We are encouraged by the resiliency of the rental home market in Denmark, which expanded in 2020 despite the pandemic. BoligPortal helped to arrange more than 100,000 home rentals last year and was used by more than 3,100 agents and 30,000 landlords. Over the past few years, BoligPortal has expanded its offerings to include help in setting up utility and broadband service and in obtaining insurance. Over the long term, we expect BoligPortal to benefit from strong demand for rental housing in Denmark and Sweden and look for recurring subscriptions to provide more-predictable revenue and cash flow, as well as additional revenue streams and services to landlords.

Ofir is Denmark's most comprehensive jobs universe, used by about 900 employers to post job vacancies via portals and social media sites such as LinkedIn, Facebook and Google. In 2020, employers posted more than 32,000 job announcements on the site, which is designed to reach both active and passive job seekers. Revenue rose 24% to 21 million DKK in 2020, and despite the impact of the pandemic, the business posted a profit in the last four months of the year. Management plans to expand Ofir by developing its sales infrastructure and advertising presence on social media. After a multiyear turnaround, in which EBIT improvement was driven mainly by cost cutting and the discontinuation of unprofitable operations, we expect revenue growth to become the key earnings driver going forward.

The company's newest business is Bekey, a provider of digital access solutions for multistory buildings as well as for private homes. Bekey has focused on providing secure access for home delivery to buildings and home healthcare services. In 2020, the homecare segment in Denmark was the main contributor to growth, accounting for about 80% of revenue. For the year, Bekey revenue rose 17% and the EBIT loss narrowed by 35% from 2019, to less than 7 million DKK.

Bekey technology opened doors 10 million times in 2020, up 25% from 2019, and its solutions are used to access approximately 54% of the secured stairwells in Greater Copenhagen. Its digital access solutions provide more than 30,000 approved users with easy access to multistory buildings and private homes through the use of NetKey, a cloud-based system that uses encrypted digital keys that cannot be lost or copied, and that enables users to open doors using Bluetooth and a mobile phone app. Chips are installed in the entryway of secured stairwells. The company plans to extend coverage to over 70% of the secure stairwells in the Copenhagen area by the end of 2021. Bekey has also generated higher license fees through contracts with approximately 30% of Denmark's municipalities, an expanding segment.

## RECENT DEVELOPMENTS

North Media shares trade on the Nasdaq Copenhagen Exchange under the ticker NORTHM. Year-to-date, the stock has increased 41%, versus a 17% increase for the OMX Nordic 40 Index benchmark, which tracks the 40 largest and most actively traded companies on the OMX. In 2020, the stock rose 79%, compared to a 16% increase for the Nordic 40 Index.

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## PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
<b>NORTH MEDIA A/S</b>	<b>NORTHM</b>	<b>112.8*</b>	<b>126*</b>	<b>55*</b>	<b>2042*</b>	<b>94</b>	<b>0</b>	<b>75</b>	<b>11.0</b>	<b>1.44</b>	<b>4.4</b>
PUNA MUSTA MEDIA OYJ	HLSE: PUMU	6.3**	7.2**	5.1**	79**	6	-4	NM	NM	0.15	2.4
ALMA MEDIA OYJ	HLSE: ALMA	10.5**	10.82**	6.8**	854**	53	-8	-20	35.7	0.61	2.9
KESKISUOMALAINEN OYJ	HLSE: KSLAV	15.50**	16.65**	9.56**	152**	48	-11	65	7.6	0.47	6.4
TX GROUP AG	SWX: TXGN	88.20***	88.20***	61.8***	927***	21	-13	NM	NM	0.37	NA

\* Stock Statistics in DKK \*\* Stock Statistics in EUR \*\*\* Stock Statistics in CHF

In May 2021, North Media reported 1Q21 EPS of 2.86 DKK, up from 2.6 DKK in the prior-year quarter, excluding returns on security investments in both periods. Revenue fell 5.5% from the prior year; however, the EBIT margin rose to 26.5% from 25.6% a year earlier.

In April 2021, Ofir announced a partnership with Google Jobs that will result in enhanced job search capabilities on the Ofir website, as well as on three other Danish job-listing sites, over Google's platform.

In April 2021, North Media's FK Distribution subsidiary expanded its partnership with Deutsche Post. Under the expanded agreement, which begins on July 1, 2021, FK will pack leaflets for Deutsche Post to distribute to more than 500,000 German households.

## EARNINGS & GROWTH ANALYSIS

We forecast revenue of 1.02 billion DKK in 2021, implying a 2% decline from 2020, and 1.05 billion DKK in 2022, which assumes 3% growth from our 2021 estimate. We expect double-digit revenue growth in Digital Services to offset continued declines in the Last Mile distribution business, where revenue has fallen due to the impact of COVID-19 on smaller businesses and the migration of advertising to digital channels. In 2020, Last Mile accounted for 85% of total company revenue. We expect this contribution to decline to 75% over the next 2-3 years, as the Digital Services segment, helped by new offerings and acquisitions, accounts for a larger percentage of revenue.

We project EBIT margins of 24.4% in 2021 and 25.0% in 2022, as the company continues to invest in Digital Services and generates efficiencies from Last Mile. We note that the company posted a record EBIT margin of 23% in 2020, up sharply from 15.9% in 2019 and 9.6% in 2018.

We forecast EPS of 10.69 DKK in 2021 and 11.14 DKK in 2022, excluding returns on securities investments. On this basis, North Media reported EPS of 10.3 DKK in 2020 and 5.9 DKK in 2019. (Including gains on investments, EPS came to 16.9 DKK in 2020 and 11.0 DKK in 2019.)

## FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on North Media is High. The company has ample liquidity and the resources to support a strong dividend, periodically repurchase shares, and develop its Digital Services segment.

Between 2016 and 2020, North Media increased its capital resources at a compound annual rate of 28%. As of March 31, 2021, it had 95.3 million DKK in cash on its balance sheet, and 580.9 million DKK in value from a portfolio of long-term, growth-oriented security investments, which contribute to current assets of 767 million DKK, compared with 154 million DKK in current liabilities. Although North Media deducts various items in reporting a negative working capital position of 29 million DKK, we do not see this figure challenging its operations. As of March 31, 2021, total equity was 848.2 million DKK, up from 655.1 million DKK at March 31, 2020.

Net cash inflows from operating activities were 218.6 million DKK in 2020, up from 132.1 million DKK in 2019. Net cash outflows from investing activities were 47.2 million DKK, up from 31.3 million DKK in 2019. Net cash outflows from financing activities were 110.4 million DKK in 2020, up from 83 million DKK in 2019.

North Media has a solid cash dividend and periodically buys back shares. In March 2021, it paid a 2020 dividend of 5 DKK per share, for

a yield of 6% based on the company's stock price at the end of 2020 (the current yield is 4.4%, reflecting the stock's 41% gain thus far in 2021). Based on 2020 EPS excluding gains on security investments, the payout ratio is about 48%. North Media has distributed almost 300 million DKK to shareholders through dividends and stock buybacks since 2017, equal to 16.0 DKK per share.

## MANAGEMENT & RISKS

Kare Wigh is the group executive director and chief financial officer of North Media A/S. He joined the executive board in 2006. Prior to North Media, Mr. Wigh held various managerial positions with the East Asiatic Company Ltd. of Singapore, Plumrose Latinoamericana in Venezuela, and EAC Shipping in Copenhagen. Mr. Wigh earned his HD and Executive MBA degrees from the Copenhagen Business School.

North Media's board currently has seven members, most of whom are independent. Its principal shareholder, founder Richard Bunck, holds 55.75% of the company's stock.

Risks for North Media include a decline in the volume of printed advertising in the FK Distribution business and increased competition in the print media space. The company also faces competitive and operational risks as it works to expand its Digital Services segment.

## COMPANY DESCRIPTION

North Media, established in 1965, has built a diverse portfolio of market-leading companies that link businesses and consumers in Denmark. Its FK Distribution unit operates Last Mile, a distribution service that delivers direct mail and leaflets to consumers. Its smaller, but fast-growing Digital Services unit includes BoligPortal, a Danish home rental platform; Ofir, a job search platform; and Bekey, a provider of digital access solutions for multistory buildings and private homes. North Media is using cash generated by the established FK Distribution unit (85% of 2020 revenue) to develop its newer digital businesses. We expect these businesses, which have recently become profitable, to account for up to 25% of revenue over the next 2-3 years, up from 15% in 2020. Over the long term, we also expect North Media to continue its international expansion, with new initiatives in Sweden, Germany, and other markets.

## VALUATION

We value NORTHM shares on a blended, sum-of-the-parts basis by using industry-average EV/EBIT multiples for each of the company's business segments, and weighting these multiples based on the EBIT contribution of each segment in 2020. In our view, North Media warrants a more-modest discount to these benchmarks, given the long-term growth prospects of the Digital Services segment, the company's focus on shareholder returns through dividends and stock buybacks, and its robust net-interest-bearing cash position, in aggregate, mitigating a slower growth profile from FK Distribution.

Thus, we apply a multiple of 10 to FK Distribution EBIT of 233 million DKK (compared to a 12-times peer multiple) and a multiple of 26 to Digital Services EBIT of 16.2 million DKK (compared to a 29-times peer multiple) to arrive at a target enterprise value of 2.75 billion DKK, and a fair value estimate of 182 DKK per share, well above current levels. The 4.4% dividend yield and potential for returns on the securities portfolio adds to the total potential return.

Steve Silver, Argus Analyst

**INCOME STATEMENT**

<b>Growth Analysis (\$MIL, DKK)</b>	2018	2019	2020	Q1 2021A	Q2 2021E	Q3 2021E	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	1144.9	1045.6	1045.4	242.7	256.5	257.5	265.3	1022.0	244.7	263.6	263.6	278.3	1050.2
Gross Profit	552.5	522.7	619.8					627.6					635.4
SG&A	271.8	225.2	227.8					223.8					228.1
R&D	NA	NA	NA					NA					NA
Operating Income	94.0	170.0	240.2					249.4					262.9
Interest Expense	-15.7	-12.7	-5.5					-4.3					-4.4
Pretax Income	94.0	19.4	271.1					245.5					258.6
Tax Rate (%)	24	19	22					21					22.0
Net Income	51.7	110.1	186.0					194.0					201.7
Diluted Shares	19.0	18.6	18.4					18.2					18.1
EPS	2.7	5.9	10.3	2.86	2.56	2.59	2.68	10.69	2.68	2.78	2.78	2.90	11.14
Dividend	3.0	4.0	5.0					5.0					5.0
<b>Growth Rates (%)</b>													
Revenue	NA	-9	0					-2					3
Operating Income	NA	81	41					4					5
Net Income	NA	113	69					4					4
EPS	NA	119	75					4					4
<b>Valuation Analysis</b>													
Price (DKK): High	46.00	45.00	89.00					NA					NA
Price (DKK): Low	29.50	32.50	32.10					NA					NA
PE: High	NA	16.7	15.1					NA					NA
PE: Low	NA	12.0	5.4					NA					NA
PS: High	NA	0.7	1.6					NA					NA
PS: Low	NA	0.5	0.6					NA					NA
Yield: High	NA	12.3%	15.6%					NA					NA
Yield: Low	NA	8.9%	5.6%					NA					NA
<b>Financial &amp; Risk Analysis (\$MIL, DKK)</b>													
Cash (Ex. Securities)	70.7	84.7	153.5					NA					NA
Working Capital (Ex. Securities)	-39.3	-41.3	-58.4					NA					NA
Current Ratio (Incl. Securities)	1.2	1.2	5.0					NA					NA
LTDebt/Equity (%)	NM	NM	NM					NA					NA
Total Debt/Equity (%)	148	129	161					NA					NA
<b>Ratio Analysis</b>													
Gross Profit Margin	48%	50%	59%					61%					61%
Operating Margin	8%	16%	23%					24%					25%
Net Margin	5%	11%	18%					19%					19%
Return on Assets (%)	8.5	11.6	13.9					NA					NA
Return on Equity (%)	10.8	35.0	39.1					NA					NA
Op Inc/Int Exp	-6	-13	-44					-58					-60
Div Payout	1.11	0.68	0.49					0.47					0.45

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