

January 5, 2022

## NORTH MEDIA A/S (CPSE: 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 Last Mile business area operates FK Distribution, a distribution service that delivers direct mail and leaflets to consumers. Its smaller, but -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 -growing Digital Services businesses, including home rental and job search platforms. The company is also expanding into Sweden and Germany.
- \* Despite near-term weakness in the Denmark housing rental market, which began in the third quarter of 2021, and a more protracted path for the company's Bekey unit to expand its stairwell segment commercially, we expect the Digital Services unit to post double-digit revenue growth and expand its EBIT margin 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. Year-to-date in 2021, Digital Services EBIT margin has increased further, to 17.2%, compared with 13.9% in the same period in 2020.
- \* We believe that returns from North Media's internal portfolio of long-term securities, solid cash dividend, and commitment to periodic share buybacks add to its total return potential. This securities portfolio appreciated by 154.5 million DKK and 122 million DKK in 2020 and 2019, respectively. Entering 2022, the annualized dividend of 5 DKK per share yielded 4.8%, which we see supporting an attractive investment profile. Since 2017, North Media has returned nearly 300 million DKK to investors through dividends and stock buybacks.
- \* Despite our outlook for 2022 earnings to contract due to the slower-than-expected launch and commercial breakthrough of new services from BoligPortal and Bekey,

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### KEY STATISTICS

#### Key Stock Statistics

Recent price, DKK (1/3/22)	105.00
52 week high/low (DKK)	138.80- 74.00
Shares outstanding (M)	18.2
Market cap (M, DKK)	1911
Dividend (DKK)	5.0
Yield	4.8%

#### Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	13.2%

#### Financials (\$M, DKK)

Cash & Mkt Securities	840.3
Debt	126.7
Working Capital (\$M)	769.9
Current Ratio	5.7
Total Debt/Equity (%)	12.5
Payout ratio	0.3
Revenue (M) TTM	1022.4
Net Income (M) TTM	191.3
Net Margin	18.7%

#### Risk

Beta	1.53
Inst. ownership	5%

#### Valuation

P/E forward EPS	10.3
Price/Sales (TTM)	1.9
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, Forbruger-Kontakt	Mr. Lasse Ingemann Brodt
Ex. Dir., Acqui. & Bus. Dev.	Mr. Henrik Lovig Jensen
Company website	www.northmedia.dk

### PRICE CHART



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we continue to view North Media's balance sheet positively. We note that a recent write-off of some previously capitalized Bekey project investments were non-cash in nature and should continue to support the company's long-term strategy. Further, we do not think that the more-distant timeframe for enhanced cash flows from Bekey imply a less-favorable long-term outlook for that unit.

\* NORTHM shares are trading at a significant discount to peers based on multiple metrics, including 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 155 DKK, well above the current price of 105 DKK.

## INVESTMENT THESIS

North Media, established in 1965, has built a diverse portfolio of companies that link businesses and consumers in Denmark. Its Last Mile business area operates FK Distribution, a distribution service that delivers direct mail, leaflets, and free weekly newspapers to practically every household in the country, as well as digital offerings and leaflet packaging services to third parties. 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 business (87% of 2020 revenue and 97% of group EBIT) to develop its newer digital businesses. We expect these businesses, which have recently become profitable, in aggregate, to account for up to 25% of revenue over the next 2-3 years. 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 area 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, and has increased further to 27.1% year-to-date in 2021, up from 18.4% in 2019.

The volume declines in the Last Mile business area have moderated somewhat, following several years of annual volume declines of approximately 8%. The business 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 initially provided packaging for 143,000 households in Flensburg, Germany, but the cooperation was extended to 480,000 households in July 2021. We believe the partnership represents an incremental growth opportunity that we think could be expanded as early as 2022.

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. Year-to-date in 2021, Digital Services revenues have increased 11% over the first nine-months of 2020, and the group's EBIT has increased to 17.2%.

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.

Despite the COVID-19 pandemic, the rental-home market in Denmark expanded in 2020. But the market has shown some recent weakness, with a 10% decline in supply since the middle of 2021. Still, we are encouraged by BoligPortal's infrastructure and we believe it should drive favorable long-term growth. In 2020, BoligPortal helped to arrange more than 100,000 home rentals and was used by more than 3,100 agents and 30,000 landlords. Over the past few years, BoligPortal has expanded its revenue streams to include services that connect tenants with utility, broadband service, and insurance providers. Over the long term, we expect BoligPortal to benefit from strong demand for rental housing in Denmark and Sweden. We expect the launch of some growth drivers for BoligPortal will be delayed into 2022. This includes the "software as a service" (or SaaS) product features, which we expect will provide more-predictable revenue and cash flow through a subscription model. And despite the delays, we see robust opportunities for BoligPortal to generate additional revenue streams from advertising and reference fees, while also expanding its suite of services to landlords.

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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 (%)
NORTH MEDIA A/S	CPSE: NORTHM	105*	138.8*	74*	1911*	32	0	75	10.2	1.5	4.8
PUNA MUSTA MEDIA OYJ	HLSE: PUMU	5.55**	7.20**	5.50**	70**	-1	-4	NM	NM	0.39	2.7
ALMA MEDIA OYJ	HLSE: ALMA	10.64**	12.70**	8.42**	875**	15	-8	-20	34.5	1.16	2.8
KESKISUOMALAINEN OYJ	HLSE: KSLAV	16.60**	18.00**	10.90**	167**	48	-11	65	12.0	0.60	6.1
TX GROUP AG	SWX: TXGN	155***	172***	69.30***	1642***	120	-13	NM	NM	0.53	NA

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

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 35,000 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. We are encouraged by the 79% revenue growth reported year-to-date and see Ofir as still being in the early-stages of its growth cycle.

The company's newest business is Bekey, a provider of digital access solutions for multistory buildings as well as for private homes. Bekey technology opened doors 10 million times in 2020, up 25% from 2019. 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 also has invested in establishing a "stairwell" segment, which focuses on providing secure access for home delivery to buildings and home healthcare services. The Bekey solution is installed in 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. Bekey also has generated higher license fees through contracts with approximately 30% of Denmark's municipalities, an expanding segment. Bekey has seen several contracts in its stairwells segment extend beyond initial timing expectations, which has led to the write-down of certain previously capitalized investment expenses. Still, we view Bekey as well positioned to capitalizing on the long-term growth opportunities for digital keyless technologies throughout Denmark -- and we do not think that the more-distant timeframe for a commercial breakthrough imply a less-favorable long-term outlook for that unit.

## RECENT DEVELOPMENTS

North Media shares trade on the Nasdaq Copenhagen Exchange under the ticker NORTHM. In 2021, the stock increased 35%, compared with a 34% increase for the OMX Nordic Small Cap Index benchmark, of which North Media was a constituent. In 2020, the stock rose 79%, compared to a 35% increase for the OMX Nordic Small Cap Index. Effective January 2022, North Media became a component of the OMX Nordic Mid Cap Index.

In November 2021, North Media reported 3Q21 EPS of 2.4 DKK, down from 3.1 DKK in the prior-year quarter, excluding returns on security investments in both periods. Third-quarter 2021 revenue declined 5% from the prior year. While year-to-date revenue is down 3% in 2021, EBIT margin during the period rose to 25.1% from 23.6% a year earlier.

In December 2021, North Media wrote off development project costs for Bekey and announced that it will increase investments in other Digital Services units to help drive long-term growth.

In October 2021, North Media announced that it will install solar panels and a battery-energy storage system at its property in Taastrup, which should result in roughly 39% of power consumption at the Taastrup site will be generated in-house.

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 began on July 1, 2021, FK Distribution is packing leaflets for Deutsche Post to distribute to more than 480,000 German households.

## EARNINGS & GROWTH ANALYSIS

We forecast revenue of 1.025 billion DKK in 2021, implying a 2% decline from 2020, and 1.03 billion DKK in 2022, which assumes roughly flat 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 migration of advertising to digital channels and the impact of COVID-19 on smaller businesses. During the first nine months of 2021, FK Distribution revenues declined 5%, which was offset partly by an 11% increase from Digital Services. In 2020, Last Mile accounted for 87% of total company revenue. We expect this contribution to decline to 75%-80% 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 25.3% in 2021 and 21% in 2022, as the company continues to invest in Digital Services and digests the write-off of previously capitalized expenses for Bekey, which we note are non-cash in nature, and minimally impact the company's balance sheet or strategic plan. 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 10.15 DKK in 2021 and 9.33 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. In our view, the company is also well positioned to participate in the acquisition of complementary companies that would fit in its Digital Services portfolio.

Between 2016 and 2020, North Media increased its capital resources at a compound annual rate of 28%. As of June 30, 2021, it had 129 million DKK in cash on its balance sheet, and 642 million DKK in value from a portfolio of long-term, growth-oriented security investments, which contribute to current assets of 860

million DKK, compared with 146 million DKK in current liabilities. This portfolio appreciated by 154.5 million DKK in 2020 and 122 million DKK in 2019. As of September 30, 2021, total equity was 1.01 billion DKK, up from 790.7 million DKK at September 30, 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 47.3 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. In total, continuing operations generated 60.9 million DKK of total cash flow in 2020, compared with 17.8 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. Entering 2022, the dividend yield was 4.8%. 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. The company intends to continue paying a DKK 5 per share dividend annually between 2021 and 2023.

## 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 Last Mile business unit operates FK Distribution, 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, in aggregate, 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.

## 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 estimated EBIT contribution of each segment in 2022. 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 periodic stock buybacks, and its robust net-interest-bearing cash position that, in aggregate, mitigate a slower growth profile from FK Distribution.

Thus, we apply a multiple of 9 to FK Distribution EBIT of 202 million DKK (compared to a 11-times peer multiple) and a multiple of 21 to Digital Services EBIT of 14 million DKK (compared to a 24-times peer multiple) to arrive at a target enterprise value of 2.10 billion DKK and a fair value estimate of 155 DKK per share. That is well above current levels. The 4.8% dividend yield adds to the total potential return.

Steve Silver,  
Argus Analyst

**INCOME STATEMENT**

<b>Growth Analysis (\$MIL, DKK)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>1Q 2021</b>	<b>Q2 2021</b>	<b>3Q2021</b>	<b>4Q 2021E</b>	<b>2021E</b>	<b>1Q 2022E</b>	<b>2Q 2022E</b>	<b>3Q 2022E</b>	<b>4Q 2022E</b>	<b>2022E</b>
Revenue	1144.9	1045.6	1045.4	242.7	258.9	246.4	277.0	1025.0	240.0	258.5	259.6	271.9	1030.0
Gross Profit	552.5	522.7	619.8					616.2					623.4
SG&A	271.8	225.2	227.8					219.6					236.9
R&D	NA	NA	NA					NA					NA
Operating Income	94.0	170.0	240.2					259.1					216.5
Interest Expense	-15.7	-12.7	-5.5					-1.4					-4.3
Pretax Income	94.0	19.4	271.1					236.7					212.2
Tax Rate (%)	24	19	22					22					20
Net Income	51.7	110.1	186.0					185.5					169.8
Diluted Shares	19.0	18.6	18.4					18.3					18.2
EPS	2.7	5.9	10.3	2.86	2.73	2.44	2.12	10.15	2.19	2.35	2.32	2.47	9.33
Dividend	3.0	4.0	5.0					5.0					5.0
<b>Growth Rates (%)</b>													
Revenue	NA	-9	0					-2					0
Operating Income	NA	81	41					8					-16
Net Income	NA	113	69					0					-8
EPS	NA	119	75					-1					-8
<b>Valuation Analysis</b>													
Price (DKK): High	46.00	45.00	89.00					138.80					NA
Price (DKK): Low	29.50	32.50	32.10					74.00					NA
PE: High	NA	16.7	15.1					13.5					NA
PE: Low	NA	12.0	5.4					7.2					NA
PS: High	NA	0.7	1.6					2.4					NA
PS: Low	NA	0.5	0.6					1.3					NA
Yield: High	NA	12.3%	15.6%					6.8%					NA
Yield: Low	NA	8.9%	5.6%					3.6%					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%					60%					61%
Operating Margin	8%	16%	23%					25%					21%
Net Margin	5%	11%	18%					18%					16%
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					-185					-50
Div Payout	1.11	0.68	0.49					0.49					0.54

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