

## Entravision Communications Corporation (EVC)

### Virtual Chat Highlights Digital Media Opportunities

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**We hit the highlights of EVC's comments on August 10 at Noble Capital Markets' Virtual Road Show Series.** CFO Chris Young presented for the company.

**Valuations are rising in the digital media niche that EVC is helping to consolidate.** The company is seeing cash flow multiples on some deals move to over 10x, as compared to the ~6x EVC that paid for 51% of Cisneros last fall. Management sees opportunities outside of Latin America and Asia, where EVC's digital representation businesses are currently concentrated.

**Lines of credit from Facebook should no longer be a gating factor for the growth of Cisneros' business.** The line of credit from Facebook is now well over \$100 million.

**Smadex is a focus for the growth of the legacy digital media business.** Management's ambition is to increase Smadex's annual revenue to \$100 million in the next couple of years from the \$30 million to which Smadex is tracking this year, with expansion of the U.S. business a catalyst.

**Radio business has continuing tailwinds.** With 2Q results on August 5, management said radio revenue was pacing up 25% in 3Q and trends seem to be if anything improving.

**Political advertising could see another good round of growth in 2022.** The trend has been to 30% growth over the 4-year midterm cycle. Key markets next year should include Texas, Colorado, California and New Mexico. We note, however, that EVC will not benefit in 2022 from political advertising on Univision affiliates in two key Florida markets—Orlando and Tampa—as their Univision affiliations expire at the end of this year.

**Some longer-term thoughts concern U.S. Latino digital advertising and spectrum value.** There is potential for growth from leveraging EVC's expertise in the U.S. Hispanic media market with the digital expertise of its newly acquired businesses, whose focus has been largely outside of the U.S. And although another spectrum auction is not on the table in the near term, management does note that it held back from participating in the 2017 auction in a number of markets, including some in the Northeast corridor. Partially because of this, EVC netted \$264 million in proceeds from the 2017 auction, as compared to the over \$1 billion in commitments that were on the table after the auction's first round.

**Our 12-month price target for EVC is \$9; risks.** Our PT is supported by a discounted cash flow valuation. On explicit financial forecasts through 2026, we assume weighted average cost of capital (WACC) and stable FCF growth rates, respectively, of roughly 6% and -1% for broadcast business and 8% and 1% for digital media business. Our view could change based on 1) outlook for emerging markets digital media, 2) core growth or profitability of U.S. broadcast media, and 3) capital allocation. Risks to our investment thesis include: 1) secular challenges and potentially increasing competition from Univision for EVC's broadcast media business, 2) potential volatility of EVC's digital media business, 3) potential barriers to sale of all or a portion of the company; and 4) regression to mean in share price performance relative to the market.

BUY

Price at 8/10/21 (USD)	7.27
Price Target	9.00
52-week range	1.25 - 7.28

Performance (%)	1m	3m	12m
Absolute	10	87	451
S&P 500	1	7	32

Market Cap (USDm)	625.5
Shares outstanding (m)	86.0
Float (%)	71
Average volume	719,417
S&P 500	4,436.8

#### Forecasts and ratios

Year ended 12/31	2020A	2021E	2022E
1Q EPS (USD)	-0.42	0.06	0.00
2Q EPS (USD)	0.03	0.09	0.02
3Q EPS (USD)	0.11	0.10	0.07
4Q EPS (USD)	0.24	0.15	0.27
FY EPS (USD)	-0.05	0.40	0.36
% Change	NE	NM	-9%
P/E (x)	NM	18.2	20.0
EV/EBITDA (x)	8.9	8.1	8.1
Revenue (USDm)	344.0	724.6	803.1
% Change	NE	111%	11%

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## Investment Thesis and Valuation: Buy With \$9 Price Target

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**Positives supporting our Buy rating include:** 1) EVC's share price is not fully capturing the potential of digital media acquisitions over the past year because the higher growth with a different business model is more difficult for investors to assess; 2) EVC's lower post-pandemic expense base looks sustainable; 3) operating risk at the core U.S. media business should be ebbing based on the cyclical rebound in the U.S. Hispanic economy and secular growth of political advertising; 4) stability of net retransmission fee revenue (61% of 2020 EBITDA) and pro forma net debt leverage under 2x enhance management's longer-term options; and 5) our DCF valuation supports substantial stock price upside over the next 12 months.

**Risks to our investment thesis include:** 1) secular challenges and potentially increasing competition from Univision for EVC's broadcast media business, 2) potential volatility of EVC's digital media business, given its increasing focus on emerging markets and its dependence on a small number of relationships with digital ad platforms, 3) potential barriers to sale of all or a portion of the company; and 4) risk of regression to mean in share price performance given shares' substantial appreciation relative to the overall market and sector peers over the past year.

## APPENDIX

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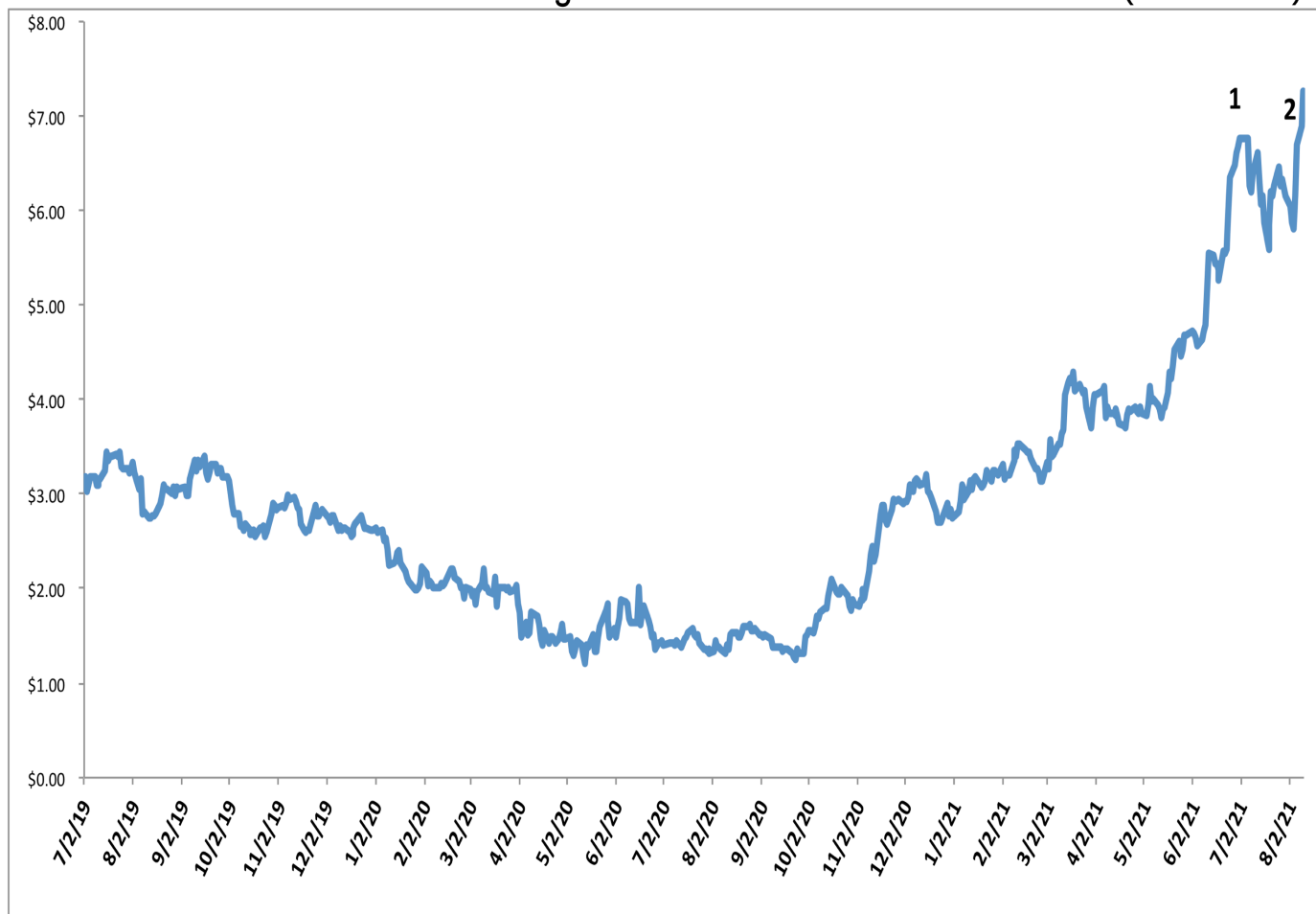
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## Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



- 1            7/6/21            Initiated Buy, Target Price \$9.00
- 2            8/6/21            Reaffirmed Buy, Target Price \$9.00

Ratings Definitions	% of Securities Covered	% Investment Banking Clients
BUY: total return expected is >15% over a 12-month period	100%	0%
HOLD: total return expected is between 15% and -15% over a 12-month period	0%	0%
SELL: total return expected is <-15% over a 12-month period	0%	0%

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