Entravision Communications Corporation (EVC)

Meeting and Presentations Highlight Growth Strategy and Execution Are on Track; Buy

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With EVC's stock price much closer to its 52-week low than high, we met with EVC this week. We share findings, along with thoughts gleaned from recent conference presentations.

2Q pre-announcement secured? Perish the thought. Last week management was clear that, whatever tremors SNAP's preannouncement caused in the digital ad world, it saw no reason to adjust the expectations it set for its business at the end of 2021.

M&A in Europe and U.S. being on the "front burner" was a bit of a surprise. This was from comments at a presentation last week, and deals in either geography would contrast with the most recent string of acquisitions being in emerging markets. On the other hand, deals that support the entire digital representation platform regardless of geography could make sense. We estimate that EVC could make $300-400m in acquisitions while maintaining leverage within its comfort zone.

EVC's "reinvention" is less inventive than it looks, which is a good thing. Digital rep acquisitions combine two of EVC's historical strengths: a focus on international markets rightly understood and expertise in media sales. We elaborate below.

Finding the right investors to price a story that could look like all things to all people can be a challenge. When EVC's well-priced, high-growth digital acquisitions were in sync with a risk-on equity market, EVC's share price surged almost 700% to hit a multi-year high of ~$9 last November. Now, the tech stock pullback, rampant inflation, and increasing fears of a recession have presented a puzzle: is EVC best viewed as a growth stock, value stock, or potential dividend play? As we explain below, we believe the company has the rationale and the flexibility to stay the course with its growth strategy, which should attract growth investors.

A few more quick points. We expect additional FB representations in Latin America. We are also less concerned about pressure on digital segment margins from missing partner targets in a slowdown, as EVC and its partners appear to be fine-tuning the target setting process. Management indicated at this week's conference potential upside to its political spending targets this year, and we think political spending will more fully value U.S. Hispanic voters as both major parties see them as persuadable, and that's the way things seem to be shaping up in key states like Texas, per a Wall Street Journal report this week.

Our 12-month price target is $8.00; risks on page 2. Our PT is supported by a DCF valuation based on explicit financial forecasts through 2027.

BUY

Price at 6/2/22 (USD)	5.20
Price Target	8.00
52-week range	4.21 - 9.34

Performance (%)	1m	3m	12m
Absolute	-2	-21	11
S&P 500	1	-5	-1

Market Cap (USDm)	454.4
Shares outstanding (m)	87.4
Float (%)	73
Average volume	384,533
S&P 500	4,176.8

Forecasts and ratios

Year ended 12/31	2021A	2022E	2023E
1Q EPS (USD)	0.06	0.02	0.14
2Q EPS (USD)	0.09	0.08	0.11
3Q EPS (USD)	0.14	0.12	0.12
4Q EPS (USD)	0.04	0.15	0.06
FY EPS (USD)	0.33	0.37	0.43
% Change	NM	10%	18%
P/E (x)	15.6	14.1	12.0
EV/EBITDA (x)	6.0	5.5	5.3
Revenue (USDm)	760.2	942.9	1,008.5
% Change	121%	24%	7%

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Investment Thesis and Valuation: Buy With $8.00 Price Target

Positives supporting our Buy rating include: 1) EVC's share price is not fully capturing the potential of digital media acquisitions in 2020-21 because their higher growth and different business models are more difficult for investors to assess; 2) EVC's lower post-pandemic expense base looks sustainable; 3) apart from the industry-wide pressure on auto advertising because of supply shortages, and any transitional risks introduced by measures to mitigate Covid-19 variants, 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) relative stability of net retransmission fee revenue (42% of 2021 EBITDA) and pro forma net debt leverage under 3x enhance management's longer-term options; and 5) our DCF valuation supports substantial stock price upside over the next 12 months.

Our DCF-based 12-month price target is a weighted average of projected equity valuations at year-end 2022 and 2023. First, we adjust the current net debt with the estimated free cash flow to be generated by each valuation date. Second, we adjust the current net debt for any estimated payments remaining on the acquisitions (e.g., earnouts), which are currently scheduled to occur from early 2022 to 2025. Finally, we value EVC both using a weighted average cost of capital (WACC) reflecting its own stock price trading and using separate WACCs for its broadcast and digital media businesses based on sector comparables, applied to separate free cash flow forecasts for each of these businesses. The results of these two methods set the range for our valuation, with the EVC-specific method incorporating market data on EVC shares' actual volatility setting the upper bound, and the sector method relying on measures of risk of comparables setting the lower bound. Note that in our DCF, for our terminal value estimates, we assume that capex equals D&A, which results in a substantially higher capex estimate than in our financial statement forecasts because capex should be like D&A for a terminal value forecast, to support the need for an asset base in perpetuity.

Risks to our investment thesis include: 1) sensitivity of EVC's advertising-based businesses to macroeconomic shocks, such as a recession, 2) potential volatility of EVC's digital media business, given its increasing focus on emerging markets, its dependence on a small number of commercial relationships with media tech platforms, and increasing competition, 3) secular challenges and potentially increasing competition from TelevisaUnivision for EVC's broadcast media business, 4) potential barriers to sale of all or a portion of the company, and 5) 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.

A Few Dollars More

A classic response to the strategy of transforming a cash cow (e.g., broadcaster) into a racehorse (e.g., digital media rep rollup) is that capital is better returned to shareholders, whose job after all is to allocate capital across industries. There are at least two good retorts in favor of EVC's strategy, however. First, there is no way for public equity investors to obtain exposure to the digital representation businesses that EVC has been acquiring and building since 2020—the only other play here of size is privately held Aleph Group, whose IPO is on hold. Yet, the mere presence of Aleph on the threshold of the public markets reinforces that this is a business that fits well in a public company. Second, digital representation acquisitions combine two of EVC's historical strengths: a focus on international markets and expertise in media sales. EVC's broadcast-centric operations have long given investors exposure to the growth of the country within a country that is the U.S. Hispanic market. And the crown jewel of EVC's broadcast business has always been its TV station group, which in our view has built a better selling operation than Univision's owned and operated station group. Media sales are in EVC's corporate DNA, which gives us reason to believe that EVC will be a good steward of the digital media rep acquisitions.

Our take is that, despite the decline in valuations since last fall, EVC is likely to continue to work on delivering the digital M&A that helped spark the stock's epic run in 2020-2021. Although this effort may leave the shares at near-term risk of being range bound (along with many other growth stocks), M&A has proven itself the catalyst over which EVC has the most control. Despite the drop in tech stock valuations, digital rep deals at terms similar to those of Cisneros or MedaiDonuts would likely still be accretive (although earnouts might not be). Thus, EVC is likely to put its acquisition capacity to work on digital acquisitions over the next 6-12 months. Secondarily, the current share price does indeed make EVC attractive to value investors, given its FCF yield in the teens, and its 5x-handle EV/EBITDA (including in EV a bit over $100m in contingent consideration). As management noted at a conference, its 0.0x net leverage balance sheet is built to weather a recession. Finally, although we believe that EVC's board is naturally considering raising the dividend, as EVC's current 2% dividend yield would double if the covid dividend cut was restored. However, we think it more likely that capital return continues through the company's revived share buyback program than through dividend hikes. In our view, buybacks are more consistent with capital allocations to growth-oriented acquisitions—if management sees its own stock as the best growth opportunity, it can put its cash to work in the buyback.

APPENDIX

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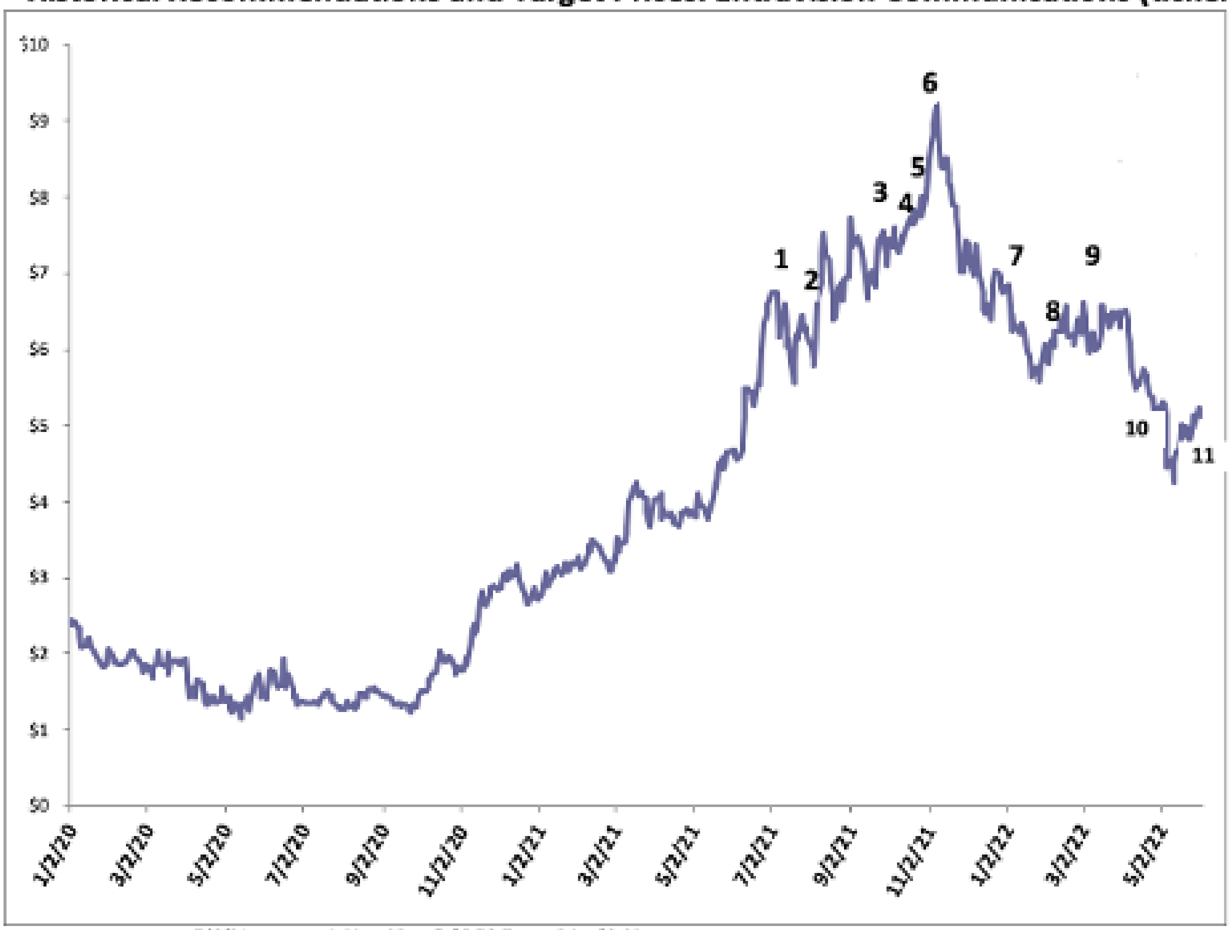

1	7/6/21	Initiated Buy @ $6.76, Target Price $9.00
2	8/6/21	Reaffirmed Buy @ $6.15, Target Price $9.00
3	9/2/21	Reaffirmed Buy @ $7.75, Target Price $10.00
4	10/5/21	Reaffirmed Buy @ $7.60, Target Price $10.00
5	10/28/21	Reaffirmed Buy @ $7.85, Target Price $10.00
6	11/5/21	Reaffirmed Buy @ $8.83, Target Price $10.50
7	12/20/21	Reaffirmed Buy @ $6.40, Target Price $10.00
8	2/2/22	Reaffirmed Buy @ $5.87, Target Price $8.00
9	3/4/22	Reaffirmed Buy @ $6.42, Target Price $8.50
10	4/15/22	Reaffirmed Buy @ $5.53, Target Price $8.50
11	5/6/22	Reaffirmed Buy @ $5.14, Target Price $8.00

Ratings Definitions

BUY: total return expected is >15% over a 12-month period

HOLD: total return expected is between 15% and -15% over a 12-month period

SELL: total return expected is <-15% over a 12-month period

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