Industry Capital Research

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Entravision Communications Corporation (EVC)

Implications of Potential Aleph IPO for the Digital Media Representation Sector; Buy

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Estimated enterprise value (EV) range of $1.8-$2.7bn for Aleph Group, a potential new benchmark for digital media presentation sector. Disclosures in Aleph's 2/7 S-1 reference $2.5bn EV. Aleph has ~2x the EBITDA of EVC's digital rep business. December EVC DCF analysis update supported valuing EVC at an EV-to-estimated-digital-EBITDA of ~19x on 2022 and ~15-16x on 2023, useful references for Aleph.

Aleph is growing much faster than its ad markets. In 2021, Aleph's Total Advertising Volume (TAV~gross revenue) was up 125% (~7x the digital ad market), revenue up 87%, pro forma revenue up 84%, and number of advertisers up 80%. Operating leverage was positive, with reported EBITDA up 144%, at a margin (37%) slightly below EVC digital's (41%), on a comparable revenue basis.

High growth likely being driven by adding new advertisers, whether in existing or new partnerships, or by acquisitions. New advertisers would seem the key to bridging the gap between Aleph's 2021 pro forma revenue growth (84%) and growth in annual TAV per advertiser (25%). The S-1's comparison of forecast 2021-25 CAGRs for digital ad growth in emerging markets (EM) and developed markets has EM at 11.8% and developed at 11.1%, a difference that's more rounding error than growth premium. Although EVC has cited improved credit terms for advertisers as a catalyst for a triple digit growth spurt, the S-1 does not call this out as a factor for Aleph. To fuel future growth, Aleph has made 3 acquisitions since the end of 3Q21 for over $100m (and over $200m including contingent consideration).

IPO's timing is tough, especially while Russian-Ukrainian conflict lurks … Shares of EVC and the 5 public comps referenced for its digital business—FB, MELI, PERI, PUBM, and SFOR.L—are down 27% over the past 3 months. Aleph generates ~1/3 of its revenue from three Eastern European countries: Slovenia, Latvia and Estonia.

… and Aleph's competitive moat is a bit mysterious. Aleph's exclusive selling franchises are not long-term, at most three-years in length, and Aleph is set to lose this year business from LinkedIn, which provided ~9% of Aleph's 2021 revenue and is taking its effort in-house. Relying on 5 media tech partners for 83% of revenue accentuates the risk from such losses. Conflicts of interest from representing competing partners in the same region would appear to create diseconomies of scale at a certain point. Aleph's competitive advantage from an on-the-ground presence across its 77 markets seems modest. Based on the S-1, the average number of personnel dedicated to Aleph's top-5 partners per country is 2. Although Aleph offers tech tools for ad campaigns on Twitter and Facebook and is early on in developing tools for more platforms, these efforts may be small relative to investments by its platform partners. Although Aleph might add value in cross-platform campaigns, it generates relatively little of its revenue (<5%) from such services.

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

BUY			
Price at 2/21/22 (USD)			6.16
Price Target			8.00
52-week range			3.08 - 9.34
Performance (%)	1m	3m	12m
Absolute	3	-27	82
S&P 500	-5	-8	11
Market Cap (USDm)			544.2
Shares outstanding (m)			88.4
Float (%)			72
Average volume			345,782
S&P 500			4,348.9

Forecasts and ratios

Year ended 12/31	2021E	2022E	2023E
1Q EPS (USD)	0.06	0.03	0.05
2Q EPS (USD)	0.09	0.07	0.08
3Q EPS (USD)	0.14	0.12	0.10
4Q EPS (USD)	0.15	0.20	0.20
FY EPS (USD)	0.44	0.42	0.43
% Change	NM	-3%	2%
P/E (x)	14.1	14.5	14.3
EV/EBITDA (x)	8.1	7.4	7.0
Revenue (USDm)	751.8	947.0	1,009.6
% Change	119%	26%	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) stability of net retransmission fee revenue (61% of 2020 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, which tend to be more stable, 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 similar to 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 pandemic flare-ups, 2) secular challenges and potentially increasing competition from Univision for EVC's broadcast media business, 3) potential volatility of EVC's digital media business, given its increasing focus on emerging markets, its dependence on a small number of relationships with media tech platforms, and increasing competition, 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.

In A Nutshell: Sector Benchmark Faces Valuation and Timing Tests

Estimated EV range of $1.8-$2.7bn for potential new benchmark for digital media presentation sector, depending on growth outlook and choice of comparables. Disclosures in Aleph's S-1 filed on 2/7 about terms of a recent acquisition reference a $2.5bn EV. Aleph has ~2x the EBITDA of EVC's digital rep business. Our latest DCF update for EVC supported valuing EVC at an EV-to-estimated-digital-EBITDA of ~19x on 2022 and ~15-16x on 2023 estimates, useful references for Aleph. In estimating Aleph's cost of capital, EVC could be the best comp Aleph has; using the more volatile trading sector comps we used for EVC's digital business, Aleph's valuation would be lower. Details of the digital media representation business in Aleph's S-1 provide support for the comps we use in the valuation of EVC's digital media representation business, suggesting they could be comps for Aleph as well.

Aleph is growing much faster than its ad markets. In 2021, Aleph's Total Advertising Volume (TAV~gross revenue) was up 125% (~7x the digital ad market), reported revenue up 87%, pro forma revenue up 84%, and number of advertisers up 80%. Operating leverage was positive, with reported EBITDA up 144%, at a margin (37%) slightly below EVC digital's (41%), on a comparable revenue basis.

High growth likely being driven by adding new advertisers, whether by existing or new partnerships or acquisitions. New advertisers would seem the key to bridging the gap between 2021 pro forma revenue growth (84%) and growth in annual TAV per advertiser (25%). The S-1's comparison of forecast 2021-25 CAGRs for digital ad growth in emerging markets (EM) and developed markets has EM at 11.8% and developed at 11.1%, a difference that's more rounding error than growth premium. Although EVC has cited improved credit terms for advertisers as a catalyst for a triple digit growth spurt, the S-1 does not call this out as a factor for Aleph.

To fuel future growth, Aleph has made 3 acquisitions since the end of 3Q21 for over $100m (and over $200m including contingent consideration). Aleph's preliminary prospectus does not shed much light on how consolidated the digital media representation business is in the developing markets where it operates, information that is often important in assessing roll-ups. Aleph's financials suggest that it is roughly two years ahead of EVC's digital segment as a business.

In the land of giants, the little middleman's moat is a bit mysterious. Aleph asserts that its business, with $168m in pro forma revenue and $70m in pro forma EBITDA in 2021, has a "neutral position" linking "digital platforms, advertising agencies and advertisers," benefiting from a "virtuous cycle in which every new partner, country and advertiser that we add to our portfolio creates value for all stakeholders." However, Aleph's exclusive selling franchises are not long-term, at most three-years in length, and Aleph is set to lose this year business from LinkedIn, which provided ~9% of Aleph's 2021 revenue and is taking its effort in-house. Relying on 5 media tech partners for 83% of revenue accentuates the risk from such losses. Conflicts of interest from representing competing partners in the same region would appear to create diseconomies of scale at a certain point. Aleph's competitive advantage from having an on-the-ground presence across its 77 markets seems modest. Based on the S-1, the average number of personnel dedicated to Aleph's top-5 partners per country is 2. Moreover, the pandemic shift to more remote work seems to reduce the need for on-the-ground services to monetize media tech platforms. Although Aleph offers tech tools for ad campaigns on Twitter and Facebook and is early on in developing tools for more platforms, these efforts may be small relative to investments by its platform partners. For example, Meta Platforms (FB), accounting for 46% of Aleph's revenue, in 2021 spent 22% of revenue on capital expenditures and 21% on R&D, while Aleph spent 2% and 1%, respectively. Aleph faces competition with ad agencies in serving bigger spending advertisers. Although Aleph might add value in planning and execution of ad campaigns across different media tech platforms, it seems to generate relatively little of its revenue (<5%) from such services, which actually declined in 2021.

IPO's timing is tough, especially while Russian-Ukrainian conflict lurks. Shares of EVC and the 5 public comps we referenced for its digital business—FB, Mercado Libre (MELI), Perion Network (PERI), PubMatic (PUBM), and S4 Capital (SFOR.L)—are down 27% over the past 3 months, while the S&P 500 is down 7.6%. Unlike EVC, Aleph is quite exposed to Eastern Europe, whose consumer economies are particularly at risk from a Russian-Ukrainian conflict, generating ~1/3 of its revenue from Slovenia, Latvia and Estonia.

Figure 1: EV valuation at upper end of our preliminary range could raise over $200 million, split between company and selling shareholders

Aleph Group Estimated Pro Forma Capitalization Post-IPO

(in millions except unit data)

Components	YE 2021	Transactions / Adjustments	Pro Forma	Pct.	Comment
Shares:					
Aleph IMS	95,219.4	(4,000.0)	91,219.4	38.6%	
CVC	47,007.0	2,853.5	49,860.5	21.1%	
Akuma	44,395.5		44,395.5	18.8%	
Public float		16,000.0	20,000.0	8.5%	
		4,000.0			
A15		9,342.8	14,812.8	6.3%	
		5,470.0			
SPT	10,847.8		10,847.8	4.6%	
MELI	2,500.0		2,500.0	1.1%	
Twitter	466.2		466.2	0.2%	
Snapchat	418.5		418.5	0.2%	
Other Management	30.3	1,772.4	1,802.8	0.8%	
Total	200,884.7	35,438.7	236,323.4	100.0%	
Cash:					
Cash	$113.1	$10.9	$292.9		
		169.0			
Restricted cash	11.1	-0.2	10.9		
Subtotal	124.2	179.7	303.9		
Debt:					
Loans payable/other	32.1	5.0	37.2		
Long-term loans payable/other	0.0	55.4	55.4		
Liabilities with related parties	7.0	0.0	7.0		
Subtotal	39.1	60.5	99.6		
Hidden Value:					
Non-controlling interests	-24.7	-3.0	-49.0		
		-21.3			
Subtotal	-24.7	-24.3	-49.0		
SUMMARY:					
Equity market cap			**2,599.6**		
Cash + restricted cash			303.9		
Debt			99.6		
PF Net Debt			**(204.3)**		
Non-controlling interests			(49.0)		
Hidden Value			**(49.0)**		
Enterprise Value			**2,444.3**		
Memo: loans payable/other					
Ad Dynamo	13.1				
Revolver	19.1				
Subtotal	32.1				
Memo: Connect Ads consideration					
Consideration shares	102.8				
Put Exercise shares	60.2				
Cash, net	49.5				
Subtotal	212.5				
Offering price per share	$0.0110		$11.00		Assuming 1,000:1 reverse stock split as of IPO
IPO proceeds	169.0				
Proceeds to Selling Shareholders	42.2				
Total proceeds	211.2				

Source: Industry Capital Research estimates and company data

Rest of the Story: How Aleph Got Here, Where It Fits, What It's Worth

Figure 2: Across Aleph's 77 markets, Twitter is the oldest partner relationship, while Meta (Facebook) is the biggest

Aleph Group Partnership History

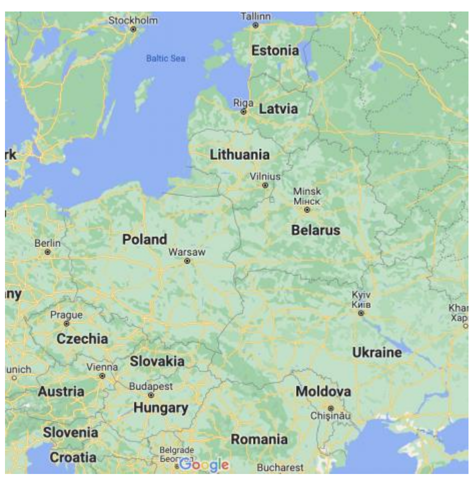
Partner	Start Year	# Countries at Start	# Countries Now
Meta	2018	4	11
Twitter	2012	5	59
LinkedIn	2014	5	26
Snapchat	2016	2	39
Spotify	2013	17	40
TikTok	2019	1	24

Note: Listed in order of 2021 revenue contribution. Source: Industry Capital Research and company data

IN ALEPH'S GROWTH, HTTPOOL ACQUISITION WAS PIVOTAL

Although Aleph was founded in South America, its bigger growth drivers are in Europe. Aleph's predecessor, IMS Internet Media Services, was founded in 2005 by current CEO Gastón Taratuta. However, it was not until 2012 that IMS entered the digital media representation business, with an agreement to be Twitter's sole representative in Latin America, starting with 5 countries that year. In 2017, IMS acquired a majority stake in Httpool, whose operations were focused on Europe and Asia Pacific. We surmise that Httpool has been the primary contributor to Aleph's European business, which now accounts for 70% of company revenue.

Figure 3: Aleph generates almost 1/3 of revenue from three countries in Eastern Europe—Slovenia, Latvia and Estonia



Source: Google Maps

At this point, Aleph's financials suggest that it is roughly two years ahead of EVC's digital segment as a business. Adjusting for accounting differences, we forecast EVC's digital revenue and margins to be similar in 2023 to Aleph's in 2021.

Figure 4: Aleph has picked up pace of acquisitions recently

Aleph Group Recent Acquisitions

($ millions)

Transaction	Deal Date	Closing	Consideration	Contingent	Total	Region
Connect Ads DMCC	9/29/21	1Q22	52.4	137.8	190.2	MENA
Ad Dynamo	10/12/21	11/30/21	27.5		27.5	Africa
Mediam	1/4/22	2024 on	24.5		24.5	Latin America
Total			104.4	137.8	242.2	

Source: Industry Capital Research estimates and company data

Aleph's management would have effective control over the company after an IPO, reflecting the dual class capital structure. Key senior management and insiders own Class B shares, which have 10 votes compared to the one vote of Class A shares that would be sold in the offering.

One legacy of the company's far flung—it operates in 77 countries—and rapid recent growth is a weakness in internal controls, which management will need to address. The S-1 discloses that in connection with preparation of the 2020 financial statements Aleph identified material weakness in internal controls. Moreover, the company has yet to evaluate it internal controls in accordance with Sarbanes-Oxley "because no such evaluation has been previously required." We find these issues of no particular concern, especially given the audited financials provided with the S-1, but we do recognize that addressing them would require some attention from a management most of whom, according to the S-1, "have limited experience managing a publicly traded company."

Investors themselves will have to reckon with Aleph's different method of revenue recognition than the one used by EVC. Aleph's auditors have signed off on booking as representation revenue those amounts paid to Aleph in compensation for its services as agent. Thus, Aleph recognizes revenue on a net basis, while EVC recognizes revenue on a gross basis, on the ground that it takes control of the ad inventory transacted and acts as a principal, and thus EVC includes the value of the advertising inventory purchased as revenue. Rather than disclose gross revenue, Aleph discloses a figure called "total advertising volume" (TAV), which is akin to revenue as EVC reports it; over 80% of TAV was received under a commission model in 2021. Although these differences in revenue recognition come out in the wash in calculating EBITDA, one consequence of Aleph's "net revenue" approach is that Aleph reports substantially lower revenue (and accordingly higher margins), incidentally well below the ~$1 billion threshold above which Aleph might not quality for treatment as an emerging growth company under the JOBS Act, which among other things requires attestation as to Sarbanes-Oxley compliance.

GROWTH IS FAST, WHILE MOAT FACES COMPETITION FOR SMALL AND BIG ADVERTISERS ALIKE

Growing 84% on a pro forma basis in 2021, Aleph's revenue is roughly equally split between performance-based and brand. The performance-based advertisers are on average the bigger spenders, given they comprise ~5% of Aleph's customers, but ~50% of ad spending.

Figure 5: Aleph's revenue is concentrated among 5 partners and in emerging Europe

Aleph Group Revenue Mix by Partner & Region	2021 Rev %
Partner	
Meta	45.7%
Twitter	18.7%
LinkedIn	9.3%
Snapchat	5.2%
Spotify	4.0%
Subtotal	82.9%
Region	
Europe	70.0%
Americas	16.2%
APAC	13.2%
Africa	0.6%

Source: Aleph Group S-1

Aleph's key value proposition is to help large media tech platforms, in particular social networks, scale their sales operations more rapidly and profitably in emerging markets. Aleph delivers this through outsourced blocking and tackling in fundamental sales functions: managing credit and local currency billing for advertisers, education on the features and updates of the partner platforms, and specialized technology solutions where necessary.

The enduring value of local sales operations in emerging markets is still a work in progress, in our view. The tech platforms have been in emerging markets for years, with a focus on serving both sides of the market—users and advertisers—at scale. The platforms themselves originate their content, features and ad sales tools, and bear ultimate responsibility for monetization. If consumers can use substantially the same platform globally, then it is likely that advertisers can as well. The S-1 discloses that between 2018-21 neither Meta nor Twitter opened a new office in any of the emerging countries in which they operated. Although this suggests an opportunity that digital media representation firms can seize, it also suggests that such on-the-ground presence may not move the needle substantially for large platforms at the end of the day.

Figure 6: Across top-5 partners by revenue, average number of personnel on partner-dedicated teams per country ranges from 1-10

Aleph Group Personnel by Partner

Partner	Countries	# Personnel on Dedicated Teams	Personnel / Country / Platform
Meta	10	99	9.9
Twitter	59	129	2.2
LinkedIn	26	38	1.5
Snapchat	39	42	1.1
Spotify	40	29	0.7
Subtotal	174	337	1.9

Source: Industry Capital Research estimates and company data

Moreover, the shift to more remote working would seem to reduce the importance of the on-the-ground services Aleph says are key to fully monetizing media tech platforms. Aleph says that "advertisers in emerging countries often have limited or non-existent access to educational materials, training, and information on tendencies, penetration and digital platform usage that can help them understand the nuances of each platform." However, the relatively small number of personnel which Aleph dedicates per platform per market suggests that on-the-ground presence is worth only modest investment. As digital resources improve, remote work would seem to be an alternative to a local office for selling digital advertising.

As an intermediary, Aleph faces challenges managing conflicts among partners and with other intermediaries. The consultative sell can put a seller in the co-pilot seat next to the advertiser, at least before takeoff, and particularly for larger advertisers, this may have Aleph performing functions that otherwise might be performed by the advertiser's agency. Aleph speaks of being able to perform niche functions that agencies disrupted by the transition to digital media may be becoming less suited to performing. However, in our view, Aleph's compensation from the platforms puts limits on how much advertisers would prudently rely on Aleph to take over advisory functions. Aleph is ultimately a sales tool, an agent, for the platforms, and is compensated by them, either by commission (for 83% of Aleph's 2021 TAV) or by revenue share (for 14% of Aleph's 2021 TAV).

Another limit on Aleph's place in the value chain is the competition among different partners themselves. Just as it is difficult for a single ad agency to represent Coke and Pepsi in the same market, it would appear to be difficult for a representation firm—an agent, after all—to represent both Facebook and TikTok, for example, in the same market. To the extent there are Chinese walls between the teams representing the different partners, this reduces the benefits of scale for the media representation firm.

VALUATION LOOKS TO FUNDAMENTALS TO FORECAST GROWTH, COMPARABLES TO MEASURE RISK

Valuation is a mix of art and science; here is our first crack at the alchemy for Aleph. We consider three different scenarios for 2021-23 EBITDA growth and three different valuation scenarios, with the takeaways presented in Figure 7. We present estimates of pro forma capitalization in Figure 1, assuming that in the current market the IPO is likely to be for a more modest stake.

Figure 7: Our Aleph EV estimate depends most on EBITDA growth outlook and choice of comparables

Aleph Group Valuation Scenarios

(in $ millions except unit data)

		2022	2023
Scenarios: Enterprise Value			
Bottoms-up Aleph Forecast (High Case) @ EVC Digital Valuation	2,703.4		
Bottoms-up Aleph Forecast + 10% Premium to EVC Digital Valuation	2,654.0		
Bottoms-up Aleph Forecast @ EVC Digital Valuation	2,412.7		
Estimated Aleph PF 2021 EBITDA With Growth ~EVC @ EVC Digital Valuation	1,830.5		
Bottoms-up Aleph Forecast @ Digital Comps Valuation	1,828.8		
Scenarios: EV/EBITDA			
Bottoms-up Aleph Forecast (High Case) @ EVC Digital Valuation		23.1x	15.0x
Bottoms-up Aleph Forecast + 10% Premium to EVC Digital Valuation		22.0x	16.6x
Bottoms-up Aleph Forecast @ EVC Digital Valuation		20.0x	15.0x
Estimated Aleph PF 2021 EBITDA With Growth ~EVC @ EVC Digital Valuation		19.2x	15.0x
Bottoms-up Aleph Forecast @ Digital Comps Valuation		15.1x	11.4x

Source: Industry Capital Research estimates and company data

Pro forma for the Connect Ads and Ad Dynamo acquisitions, we estimate pro forma 2021 revenue and adjusted EBITDA of roughly $176m and $73m in EBITDA (42% margin). These revenue and EBITDA figures are slightly higher than the 2021 pro forma revenue and EBITDA of $168.mm and $70.1m disclosed in the S-1, to reflect the estimated impact of a full-year of the Ad Dynamo acquisition, which closed 11/30/21. The pro forma EBITDA margin is higher than the reported margin of 37%, reflecting the higher EBITDA margins of Connect Ads.

We consider three approaches to forecasting EBITDA, resulting in 2023 estimates of roughly $120m, $160m and $180m.

- **In our base case, we forecast Aleph EBITDA of roughly $160m in 2023.** First, let us assume that core Aleph (that is, the business excluding the pending acquisitions) grows similarly to our forecast for Entravision's digital segment. Second, let us assume that Connect Ads grows at roughly the 36% rate management assumes for the Europe and APAC region, and that Ad Dynamo grows toward the top end of the 8-73% range management assumes for Africa (see further below). Third, let us assume that operating expense grows at half the rate of revenue, which is broadly in line with our assumptions for Entravision's digital segment. This results in estimated 2023 EBITDA of roughly $160m (~55% margin).

Figure 8: Our high case valuation assumptions rely on management forecasts for regional growth used in goodwill/impairment tests

Forecast Assumptions for Revenue Growth by Region

High Case	Growth	ICR Assumption	Aleph Rev %
Americas	21-41%	31%	16.2%
Europe and APAC	36%	36%	83.2%
Africa	8-73%	40%	0.6%
Subtotal - Core Aleph			35%

Notes:
(1) Growth by region based on financial forecasts given by management at 12/31/21 for applying goodwill/impairment tests.
(2) Revenue mix percentages by region for Aleph for 2021.

Source: Industry Capital Research estimates and company data

- **In our "high" case, our 2023 EBITDA estimate is roughly $180m (~55% margin), as we ratchet up the revenue growth assumptions for the core business to be more in line with its geographic revenue mix and management's growth assumptions for those regions.** We caution that the growth assumptions in the S-1 do not hold themselves out to be management's forecasts for its business, but rather assumptions for accounting purposes. In addition, the revenue growth assumptions are bundled with regional discount rates that are in general higher than the discount rates that we apply in our DCF valuations, to wit: 8% for Americas (in line), 20% for Europe and APAC (higher), and 38% for Africa (much higher). Thus, although we present valuations based on this higher 2023 EBITDA estimate, we would err on the side of a set of assumptions that seemed more in line with our valuation approach, both as to risk as well as growth.

- **The low end of our valuation assumes that Aleph's pro forma EBITDA grows similarly to EVC digital's from 2021-2023, resulting in 2023E EBITDA of ~$120m.** This approach leverages the disclosures and color that EVC has given about its digital media representation business as a public company, but is accordingly less particularized to the dynamics of Aleph's business.

We consider three approaches to EV/EBITDA valuation, resulting in 2023E EV/EBITDA multiples of roughly 11x, 15x and 17x. Note that in our analysis, we use comparables to measure risk and estimate the appropriate discount rate, not to estimate the growth or appropriate valuation multiples for Aleph, which follow instead from the more company-specific analysis presented above.

- **In our base case, we use EVC as the closest comparable, assuming that EVC's digital business accounts for most of its enterprise value, resulting in a 2023E EV/EBITDA of ~15x.** Thus, our multiples are based on using the value of EVC as a firm, reflecting the WACC estimated from EVC's own share trading, in the numerator and our estimates for the EBITDA of EVC's digital segment in the denominator.

- **The high end of our valuation uses a ~10% premium to this valuation based on EVC, to reflect the greater scale and, potentially, current growth of Aleph's business, resulting in a 2023E EV/EBITDA of ~16.6x.**

- **The low end of our EV/EBITDA valuation follows from using the same comparables for Aleph as we have used for EVC's digital business in our sum-of-the-parts DCF valuation of EVC, resulting in a 2023E EV/EBITDA of ~11.4x.** In our estimate of the WACC for EVC's digital business separately, we use FB, MELI, PERI, PUBM and SFOR.L as sector comparables. On balance, the digital comps result in a higher discount rate, and thus lower valuation. We do find some support in Aleph's S-1 for the digital comps we selected. First, Aleph says that it provides an "end-to-end" solution to both sides of the digital ad market, where improving and adding relationships with partners and gaining share of spending of advertisers are instrumental to growth. This supports using programmatic ad tech companies like PERI and PUBM to capture the risks of this aspect of Aleph's business. Second, Aleph notes its reliance on key media tech platform partners for exclusive access to digital ad inventory, supporting the use of FB, which accounts for 45.7% of Aleph's revenue, as a comparable. Note also that social media platforms Twitter (TWTR) and Snap (SNAP) have equity investments in Aleph, reinforcing the relevance of a social network as a comp. Third, Aleph provides services to advertisers similarly to an ad agency in some cases, and indicates that the digital disruption of ad agencies is an opportunity for Aleph. This suggests that it is appropriate to include as a comp SFOR.L, a smaller agency with global operations and a digital-first focus. Finally, Aleph's reliance on the growth of the digital/e-commerce ecosystem in developing markets supports use as a comp of MELI, from which Aleph in fact hired its now-Chief Operating Officer and current Chief Financial Officer and has received an equity investment.

Figure 9: Stocks we selected to reflect risks of emerging market digital representation sector are down over 25% in past 3 months

Selected Digital Media Comparables Recent Stock Price Performance

Ticker	Last 3 Mos
PERI	-16.0%
EVC	-24.1%
SFOR.L	-25.8%
Median	**-27.1%**
PUBM	-28.4%
MELI	-35.2%
FB	-39.1%
S&P 500	-7.6%

Source: Yahoo! Finance and Industry Capital Research

TOUGH TIMING

Shares of companies that we use as comparables in arriving at appropriate discount rates for valuing Aleph have taken a tumble over the past three months. In this time, shares of EVC are down 24%; we see EVC as the most directly comparable public company, given our estimate that the vast majority of its value depends on its digital media representation business and, like Aleph, EVC generates more of its revenue from FB than from any other partner. Apart from EVC, the share price declines have been on balance somewhat greater across the other five comparables we have chosen.

Finally, although a conflict in Ukraine is a risk to the global economy, that risk is greater for Eastern European countries, where Aleph's media representation business has a meaningful presence. War is bad for advertising, because war directly disrupts consumer economies, war-related news crowds out consumption of other ad-supported media, and advertisers become more reluctant to engage in branding and performance campaigns because of these disruptions.

APPENDIX

Additional information relative to securities, other financial products or issuers discussed in this report is available upon request.

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The author, Director of Research at Industry Capital Research, is a CFA® charterholder who has 18 years of experience as an analyst at U.S. broker-dealers covering the media sector, was rated #2 Stock Picker in U.S. Media for 2016 by Thomson Reuters, holds a BA (Economics) and MBA from the University of Chicago and a JD from the University of Virginia, and is a member of the Beta Gamma Sigma and Phi Beta Kappa honor societies.

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

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

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%

The target prices of shares mentioned in the accompanying text are based on the assumed investment horizon of 12 months. If company notes are published on these shares in the future, the target prices mentioned in the subsequent notes will have priority.

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