

Team Internet

Q324 results

Stability amid setbacks

Software and comp services

In the face of an advertising market that has not picked up in Q324, Team Internet's core business has performed creditably. However, Shinez has significantly underperformed expectations and is unlikely to contribute materially to profits in our forecast period. Combined with a moderation in our forecasts for the core business, we now expect earnings to remain broadly flat in FY24 and FY25, which results in a 17.6% reduction to FY25e EPS. The FY25e P/E rating of 5.6x with a 20% free cash flow (FCF) yield looks overly discounted.

Year end	Revenue (US\$m)	EBITDA (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/22	728.2	86.0	64.2	16.7	1.0	5.0	7.8	0.8
12/23	836.9	96.4	77.4	22.5	2.0	4.4	5.8	1.5
12/24e	840.7	97.0	77.8	22.9	2.3	4.4	5.7	1.8
12/25e	852.6	98.1	80.5	23.3	2.5	4.4	5.6	1.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Advertising headwinds, Shinez loses its lustre

Gross revenues for the first nine months of FY24 of \$615.1m grew by 1% y-o-y, with net revenue/gross profit of \$143.6m up 4% and EBITDA up by 2%. Trading was a mixed picture across the established divisions, with Online Advertising battling against a weak supply and demand environment, Comparison performing well and efficiency initiatives delivering significantly improved operating margins in Online Presence. However, Shinez (acquired in April 2024) materially underperformed expectations, recording gross revenues of \$21.7m and an \$0.5m EBITDA loss since acquisition (versus gross revenues of \$111m and EBITDA of \$17.2m in FY23). The company cites unanticipated changes in demand from key advertising network partners, relating to unidentified operational and compliance issues.

Estimates reduced but financial profile stays robust

We now expect revenues and earnings to remain flat over our forecast period, reducing FY24 and FY25 gross revenue by 8% and 21%, respectively, with EPS reducing by 13% and 18% (changes detailed below). Around half of the revenue downgrade stems from Shinez, with Online Marketing accounting for most of the balance, on the assumption that the online advertising market remains weak. The company's strategic initiatives are key to driving growth and margin expansion. We expect the internationalisation of Comparison to accelerate, following successful entry into the French market, while the programme of platform consolidation and efficiencies in Online Presence should continue to yield margin benefits into FY26. We expect the company to continue to generate healthy profits and cash. Net debt/EBITDA is a comfortable 1.2x and the dividend is over 9x covered. Management is exploring options to deliver value through increased capital returns.

Valuation: Ample opportunities for value creation

The shares look overly discounted at an FY25e P/E of 5.6x (a c 50% discount to adtech peers) and an FCF yield of 20%. We believe this discount should start to close if trading remains stable, as expected, and investors gain more visibility on the impact of key strategic initiatives. Management initiatives to deliver value through capital returns or asset sales could deliver substantial upside.

11 November 2024

Price 102p

Market cap £262m

US\$1.28/£

Net debt (\$m) at 30 September 2024 99.7

Shares in issue 257.0m

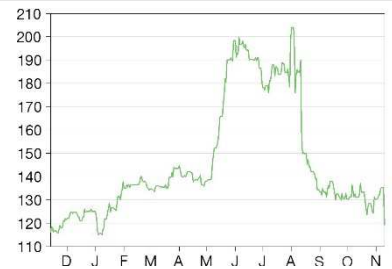
Free float 49%

Codes TIG, TIGXF

Primary exchange AIM

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs (9.2) (35.5) (4.6)

Rel (local) (7.9) (35.0) (13.3)

52-week high/low 204p 115p

Business description

Team Internet Group is a global internet company that derives recurring revenue from privacy-safe, AI-based customer journeys that help online consumers make informed choices, as well as from the distribution of domain names.

Next events

Full year results March 2025

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Divisional review

Online Marketing

The performance of Online Marketing reflected a number of factors, with the Online Advertising business battling headwinds, Comparison performing strongly, and Shinez, which was acquired in April, performing materially below expectations. Gross revenues contracted by 1% y-o-y to \$471m for the first nine months with net revenues growing by 1% to \$95.4m. Q3 saw a 1% y-o-y contraction in gross revenues to \$169m (we estimate an organic 7% contraction, excluding Shinez), while net revenues contracted by 6% y-o-y to \$30.4m.

Click prices remain under pressure, volumes continue growing

The company's established Online Advertising businesses, TONIC and ParkingCrew, delivered a 15% increase in consumer journeys to 6.5bn in TTM 2024. However, the seasonal H2 uptick has been weaker than anticipated and click prices remain under pressure. Revenue per thousand sessions (RPM) dropped by 18% from \$97 to \$79 on a trailing 12-month basis. The group has been pursuing higher traffic quality metrics and shifted spend away from short-form video, which likely suppressed volume growth somewhat although the optimisation of traffic toward the most effective channels will be key to driving a recovery in growth. The company's investment into a search on content business model, whereby advertisements are displayed based on the content of a page rather than user search queries, is also seen as key to driving volumes and CPM rates.

Comparison: Performing well, internationalisation drive set to accelerate

Vergleich (or VGL), Team Internet's Product Comparison business, performed strongly in Germany, while the launch of the platform in France, under the [Meilleurs Points D'Affaires brand](#), is showing promising results. TTM RPM has increased 19% to \$246, with visitor sessions 33% higher, indicating a growth rate of 58%, and the division has now grown to an extent whereby management plans to break this out as a separate reporting segment.

We expect the company's internationalisation drive to move forward at a faster pace, opening up a significant new path for potential growth and margin expansion.

The company's increased use of paid search to direct potential consumers to its sites is expected to facilitate this internationalisation drive, giving the company more control and visibility of the cost to secure visits from potential consumers in these new markets. Historically, VGL primarily used organic search and SEO to direct potential consumers to its sites, which, while cheaper on average than paid search in Germany, is less reliable and can be affected by algorithm changes.

Shinez: Significant drop in demand from partners

Shinez, which was acquired on 29 April 2024 for US\$41.8m, performed significantly worse than anticipated and is not expected to contribute materially to profits in FY24 or FY25. In the five months since acquisition, Shinez generated revenues of \$21.7m and an adjusted EBITDA loss of \$0.5m, a substantially lower run rate than the \$111m revenue and \$10.4m adjusted EBITDA this business registered in 2023.

The company cites unexpected reductions in demand from key advertising network partners, caused by operational and compliance issues that have since emerged. Management has implemented corrective actions, including the integration of additional advertising inventory and the refinement of revenue optimisation strategies. Initiatives to achieve synergies from Shinez technology, content library, social media reach, behavioural data and workforce are also expected to strengthen the group's competitive position. However, it is imprudent to assume any significant

recovery in the near term. Management is also exploring protection mechanisms under the share purchase agreement.

Online Presence: Efficiency drive to enhance margins through 2026

The Online Presence division is mid-way through an initiative to consolidate platforms, optimise pricing, improve efficiency and margins. This process is expected to run through to mid-FY25, which should benefit margins through to FY26 when the full-year impact will be felt. In the near term, top-line growth is being slightly suppressed by the pruning of business with sub-optimal profits.

Revenues grew 5% to \$144.1m for the first nine months with gross profit growing by 9% to \$48.2m. The respective figures for Q3 were 4% y-o-y growth to \$46.9m with gross profit stable at 33%, although management commented that operating profits were significantly improved (segmental reporting only reports to gross profit).

Estimate changes

Moderating core business expectations, Shinez materially lower

Reflecting the issues at Shinez and the lower-than-expected seasonal uptick in advertising demand, we now expect essentially stable revenue and EBITDA performance through FY24 and FY25 versus low double-digit growth previously. Our estimate changes are detailed below.

Circa 50% of the (gross) revenue downgrade stems from Shinez, which we now expect to operate at broadly break-even in FY24 and to make a low single-digit EBITDA profit in FY25. We also moderate our estimates for the organic online marketing business, assuming that the online advertising market remains subdued. The internationalisation of Comparison should help growth, particularly at the net revenue level (as this is a higher-margin business line), but at this stage we do not have enough data to model this explicitly.

Growth expectations for Online Presence are moderated slightly, which is in part precautionary but also reflects the pruning of services and customers as part of the ongoing efficiency programme. This programme is expected to complete in mid-FY25, which should generate progressive margin benefits through FY25 and FY26 when the full impact will be felt.

Healthy margins, cash generation and balance sheet

Despite the setbacks, EBITDA has remained stable and cash generation healthy, and we expect this to continue. Net debt reduced by \$10.2m in Q324 to \$99.7m. Operating cash conversion was 91% in the quarter and is expected to normalise close to 100% in Q4. The company has plenty of headroom in terms of debt (1.2x EBITDA TTM) and the dividend is over 9x covered. Management is exploring options to deliver shareholder value including balance sheet optimisation through share buybacks and dividends, as well as a comprehensive review of asset ownership.

Exhibit 1: Estimate changes

Year end 31 December	Reported		Old	New			Old	New		
US\$m	2023	y-o-y	2024e	2024e		y-o-y	2025e	2025e		y-o-y
	IFRS	growth	IFRS	IFRS	Change	growth	IFRS	IFRS	Change	growth
Gross Online Marketing Revenue	657		677	623	(8.0)%	(5)%	828	656	(20.8)%	5%
Gross Online presence Revenue	180		201	189	(6.3)%	5%	209	196	(6.3)%	4%
Gross revenue	837	0	939	841	(10.5)%	0%	1038	853	(17.8)%	1%
Online Marketing - segment gross profit	132		156.6	128	(18.4)%	(3)%	178	128	(28.2)%	-
Online Presence - segment gross profit	59		67.7	64	(5.2)%	8%	71	64	(9.9)%	-
Net revenue	191	8%	224.3	192	(14.4)%	0%	249	204	(18.2)%	6%
Adj. EBITDA	96	12%	110.2	97.0	(12.0)%	1%	119	98	(17.9)%	1%
EBITDA Margin	11.5%		11.7%	11.5%			11.5%	11.5%		
Profit Before Tax (norm)	81	26%	89.6	77.8	(13.2)%	(4)%	98	80	(17.6)%	3%
Profit Before Tax (reported)	29	98%	45.9	32.7	(28.8)%	11%	57	32	(44.6)%	(3)%
Net income (normalised)	67	62%	69.0	59.9	(13.2)%	(11)%	74	61	(17.6)%	2%
Basic average number of shares outstanding (m)	272		253.2	253.2			253	253		
EPS - basic normalised (c)	23.22	49%	27.2	23.7	(13.2)%	2%	29.30	24.2	(17.6)%	2%
EPS - diluted normalised (c)	22.41	45%	26.3	22.9	(13.2)%	2%	28.32	23.3	(17.6)%	2%
Dividend (p)	2.00		2.3	2.3	-	15%	2.50	2.5	9%	9%
Closing net debt/(cash)	74		66.2	76.2	15.2%	3%	(4)	27	n/m	n/m

Source: Edison Group, Company data

Valuation

While it is a setback to be downgrading estimates, we believe that Team Internet's valuation looks overly discounted on both a relative and absolute basis. If the company can demonstrate steady trading over the next quarters, in line with our revised estimates, we believe the shares will start to rerate upwards again. Successful execution of synergies and management initiatives to deliver value through capital returns or asset returns could deliver substantial upside.

On an absolute basis, the company's FY25e P/E of 5.6x with a respective FCF yield of 20% would appear to factor in concerns of further downgrades, rather than steady performance, as we forecast.

We believe our estimates are prudent and that there are potential catalysts for upside (eg ad spend recovery and good progress with the internationalisation of Comparison). The company's strong cash generation gives management multiple options to return or deploy capital through buybacks, dividends or accretive acquisitions if the right assets can be identified.

With management now reviewing the ownership of its assets to deliver value, a sum of the parts (SOTP) valuation becomes increasingly relevant. Current disclosure hampers an accurate SOTP analysis, although we expect segmental reporting down to the EBITDA level and Comparison to be broken out for the FY24 results. At group level, Team Internet trades at a substantial discount to Online Advertising peers – 29% on FY25e EV/EBITDA and 58% on P/E. The discount to Online Presence peers is slightly larger, although the variance in this peer group is large.

Exhibit 2: Peer comparison table

	Year-end	Share price	Quoted ccy	EV (US\$m)	EV/EBITDA FY1e (x)	EV/EBITDA FY2e (x)	P/E FY1e (x)	P/E FY2e (x)
Team Internet Group	Dec	102.0	GBP	435	4.4	4.4	5.7	5.6
Online Marketing peers								
Aplovin Corp	Dec	246.5	USD	85,529	33.7	27.7	66.9	48.4
Stroer SE & Co KgaA	Dec	51.8	EUR	4,896	7.2	6.5	16.8	13.2
Magnite Inc	Dec	13.5	USD	2,114	10.5	9.3	18.1	14.6
Criteo	Dec	35.8	USD	1,639	4.5	4.3	8.6	8.3
Perion Network Ltd	Dec	9.0	USD	35	NM	NM	36.9	47.0
Taboola.com Ltd	Dec	3.3	USD	1,078	5.4	4.6	10.5	8.8
PubMatic Inc	Dec	16.1	USD	623	7.0	6.2	78.7	61.2
Mgi Media and Games Invest Se	Dec	3.7	EUR	1,040	7.4	5.9	13.9	9.7
Tremor International Ltd	Dec	312.0	GBP	437	4.3	3.9	11.3	9.5
AdTheorent Holding Company Inc	Dec	3.2	USD	224	NM	NM	NM	NM
Viant Technology Inc	Dec	13.0	USD	604	15.0	12.8	116.0	83.3
System1	Dec	1.1	USD	314	9.1	6.0	NM	NM
YOC AG	Dec	15.4	EUR	56	8.4	6.8	14.8	11.4
Mean					10.2	8.5	35.7	28.7
Median					7.4	6.2	16.8	13.2
Team Internet Discount					-40%	-29%	-66%	-58%
Online Presence (web services) peers								
GoDaddy	Dec	177.3	USD	28,210	20.7	18.4	27.2	26.4
Verisign	Dec	186.0	USD	18,735	17.0	16.1	23.2	21.5
Squarespace	Dec	46.6	USD	6,760	NM	NM	NM	NM
ionos	Dec	23.9	EUR	4,551	9.5	8.4	17.9	14.3
Tucows	Dec	17.3	USD	190	NM	NM	NM	NM
Mean					15.7	14.3	22.8	20.7
Median					17.0	16.1	23.2	21.5
Total mean					11.4	9.8	32.9	27.0
Total median					8.8	6.7	18.0	14.4
Team Internet Discount					-50%	-34%	-68%	-61%

Source: Edison Investment Research, LSEG Data & Analytics. Note: Prices as at 9 November 2024

Exhibit 3: Financial summary

	\$m	2022	2023	2024e	2025e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Gross Revenue		728	837	841	853
Cost of Sales		(551)	(646)	(649)	(649)
Gross Profit (net revenue)		178	191	192	204
EBITDA		86	96	97	98
Normalised operating profit		83	93	94	95
Amortisation of acquired intangibles		(36)	(39)	(41)	(43)
Exceptionals		(7)	(4)	(1)	(3)
Share-based payments		(6)	(5)	(1)	(2)
Reported operating profit		34	46	50	47
Net Interest		(19)	(16)	(16)	(14)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		64	77	78	80
Profit Before Tax (reported)		15	30	34	33
Reported tax		(17)	(5)	(11)	(11)
Profit After Tax (norm)		47	63	60	61
Profit After Tax (reported)		(2)	25	23	22
Minority interests		0	0	0	0
Net income (normalised)		47	63	60	61
Net income (reported)		(2)	25	23	22
Basic average number of shares outstanding (m)		268	272	253	253
EPS - basic normalised (c)		15.40	23.30	23.65	24.16
EPS - diluted normalised (c)		14.70	22.48	22.85	23.34
EPS - basic reported (c)		0.80	9.20	9.18	8.88
Dividend (p)		0.00	2.00	2.30	2.50
Revenue growth (%)		77.4	14.9	17.5	10.0
Gross Margin (%)		24.4	22.8	22.8	23.9
EBITDA Margin (%)		11.8	11.5	11.5	11.5
EBITDA/Net Revenue (%)		48.4	50.4	50.5	48.1
Normalised Operating Margin		11.4	11.1	11.2	11.1
BALANCE SHEET					
Fixed Assets		365	344	343	307
Intangible Assets		348	324	322	287
Tangible Assets		7	7	8	8
Investments & other		10	13	13	13
Current Assets		194	200	224	275
Stocks		1	0	0	0
Debtors		98	107	104	105
Cash & cash equivalents		95	93	120	169
Other		0	0	0	0
Current Liabilities		198	188	179	178
Creditors		190	186	177	176
Tax and social security		0	0	0	0
Short term borrowings		5	0	0	0
Lease liabilities		2	2	2	2
Long Term Liabilities		194	202	232	231
Long term borrowings		146	167	197	197
Other long term liabilities		48	36	35	35
Net Assets		167	153	155	173
Minority interests		0	0	0	0
Shareholders' equity		167	153	155	173
CASH FLOW					
Op Cash Flow before WC and tax		54	72	78	79
Working capital		7	(14)	(5)	(3)
Exceptional & other		25	20	19	20
Tax		(8)	(6)	(11)	(11)
Net operating cash flow		78	73	81	85
Capex		(7)	(10)	(9)	(9)
Acquisitions/disposals		(82)	(6)	(32)	0
Interest paid		(8)	(12)	(18)	(18)
Equity financing		59	0	0	0
Change in borrowing		167	15	30	0
Dividends		0	(4)	(10)	(7)
Other		(163)	(61)	(15)	(2)
Net Cash Flow		44	(5)	28	49
Opening net debt/(cash)		81	57	74	77
FX		(5)	3	0	0
Other non-cash movements		(14)	(15)	(30)	0
Closing net debt/(cash)		57	74	77	28

Source: Edison Investment Research, company accounts

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