

25 June 2018

Company Research

# EVR Holdings (EVRH.L)

United Kingdom | Media

**BUY**

## New European launches

**EVR confirms 8 new MelodyVR territory launches in Europe following recent US/UK releases, with early user engagement numbers/metrics post-launch “positive”. Buy – EVR is early stage so subject to execution risk, but we see an interesting position in original/live event music VR content via its MelodyVR platform.**

- New market launches:** New MelodyVR launch into 8 further European territories to coincide with Facebook Oculus Go retail release in France, Germany, Sweden, Netherlands, Switzerland, Greece, Austria and Belgium. This follows the EVR strategy to leverage its expansion around new VR hardware releases in key territories globally. EVR confirms it intends to extend the offering in further territories in due course; we have previously referenced Japan as a target as well as South Korea and Latam.
- Positive comment on recently launched UK/US territories revenue, user engagement and metrics.** This looks like good news though EVR gives no hard numbers: we forecast cautious looking c. £1m sales in FY18E as hardware releases in modest initial volumes and ramps up more towards Christmas. We also hope for further mass market, better tech hardware launches towards the end of the year, while EVR should release further immersive music content as volumes build and we would also hope for trials of live music and new payment models (e.g. subscription).
- Valuation:** Given the lack of visibility, we use probability-based DCF scenario analysis (WACC 12%/TGR 3.5%) – our PT is 23p. Key variables are the VR market, MelodyVR uptake and ARPU. Our base case value is 21p/share, but if VR and penetration deliver our bull case assumptions, we see much higher value at 38p/share. FY17 cash was £12m and the recent placing raised £20m, suggesting EVR is well funded to breakeven.

 Price: 10.5p  
 Target: 23.0p  
 Forecast Total Return: 119.0%  
  
 Market Cap: £135m  
 EV: £115m  
 Average daily volume: 4.8m

### Media

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### Financials and valuation

Year end: 31 December

	2017A	2018E	2019E	2020E	2021E
Revenue (£m)	0.0	1.1	24.4	96.6	246.7
EBITDA (£m)	(5.2)	(10.5)	(10.5)	(4.5)	12.0
EBITA (£m)	(5.3)	(10.7)	(10.9)	(5.3)	10.9
PBT (normalised) (£m)	(6.2)	(11.8)	(12.3)	(6.8)	9.0
Net Income (normalised) (£m)	(6.2)	(11.8)	(12.3)	(6.8)	7.4
EPS (norm. cont.) – FD (p)	(0.5)	(0.8)	(0.8)	(0.5)	0.5
FCFPS - FD (p)	(0.5)	(0.8)	(0.7)	(0.2)	0.8
DPS (p)	0.0	0.0	0.0	0.0	0.0
PE (normalised) (x)	(20.4)	(13.0)	(12.8)	(23.2)	21.3
EV/sales (x)	-	101.0	4.7	1.2	0.5
EV/EBITDA (x)	(22.2)	(10.9)	(10.9)	(25.4)	9.6
FCF yield (%)	(4.3)	(7.4)	(6.8)	(2.3)	7.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company accounts/Investec Securities estimates

### Price Performance



Source: FactSet

Investec acts as broker and/or advisor to EVR Holdings

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## Summary Financials (£m)

Year end: 31 December

Income Statement	2017	2018E	2019E	2020E	2021E
<b>Revenue</b>	<b>0.0</b>	<b>1.1</b>	<b>24.4</b>	<b>96.6</b>	<b>246.7</b>
<b>EBITDA</b>	<b>(5.2)</b>	<b>(10.5)</b>	<b>(10.5)</b>	<b>(4.5)</b>	<b>12.0</b>
Depreciation and amortisation	(0.1)	(0.2)	(0.4)	(0.7)	(1.1)
<b>Operating profit</b>	<b>(5.3)</b>	<b>(10.7)</b>	<b>(10.9)</b>	<b>(5.3)</b>	<b>10.9</b>
Other income	-	-	-	-	-
Net interest	(0.0)	0.0	(0.1)	0.0	0.0
Share-based-payments	(0.9)	(1.1)	(1.3)	(1.6)	(1.9)
<b>PBT (normalised)</b>	<b>(6.2)</b>	<b>(11.8)</b>	<b>(12.3)</b>	<b>(6.8)</b>	<b>9.0</b>
Impairment of acquired intangibles	-	-	-	-	-
Non-recurring items/exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT (reported)</b>	<b>(6.2)</b>	<b>(11.8)</b>	<b>(12.3)</b>	<b>(6.8)</b>	<b>9.0</b>
Taxation	0.0	0.0	0.0	0.0	(1.5)
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued/assets held for sale	-	-	-	-	-
Net Income (normalised)	(6.2)	(11.8)	(12.3)	(6.8)	7.4
Attributable profit	(6.2)	(11.8)	(12.3)	(6.8)	7.4
EPS (reported)	(0.5)	(0.8)	(0.8)	(0.5)	0.5
EPS (norm., cont.) – FD (p)	(0.5)	(0.8)	(0.8)	(0.5)	0.5
EPS (norm., cont., IAS19R adj.) – FD	-	-	-	-	-
DPS (p)	0.0	0.0	0.0	0.0	0.0
Average number of group shares - FD (m)	1,212.1	1,467.7	1,509.4	1,509.4	1,509.4
Average number of group shares (m)	985.4	1,241.0	1,282.7	1,282.7	1,282.7
Total number of shares in issue (m)	1,157.7	1,282.7	1,282.7	1,282.7	1,282.7
Cash Flow	2017	2018E	2019E	2020E	2021E
Operating profit	(5.3)	(10.7)	(10.9)	(5.3)	10.9
Depreciation & amortisation	0.1	0.2	0.4	0.7	1.1
Other cash and non-cash movements	(0.0)	0.0	0.9	1.5	3.2
Change in working capital	0.3	(0.4)	0.6	2.0	4.1
<b>Operating cash flow</b>	<b>(4.9)</b>	<b>(10.9)</b>	<b>(9.0)</b>	<b>(1.0)</b>	<b>19.2</b>
Interest	0.0	0.0	(0.1)	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0	(1.4)
Dividends from associates and JVs	-	-	-	-	-
<b>Cash flow from operations</b>	<b>(4.9)</b>	<b>(10.9)</b>	<b>(9.1)</b>	<b>(1.0)</b>	<b>17.8</b>
Maintenance capex	(0.6)	(0.5)	(1.7)	(2.7)	(6.2)
<b>Free cash flow</b>	<b>(5.5)</b>	<b>(11.4)</b>	<b>(10.8)</b>	<b>(3.7)</b>	<b>11.6</b>
Expansionary capex	-	-	-	-	-
Exceptionals and discontinued operations	-	-	-	-	-
Other financials	0.4	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	-	-	-	-	-
Net share issues	14.2	19.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
<b>Change in net cash</b>	<b>9.0</b>	<b>7.6</b>	<b>(10.8)</b>	<b>(3.7)</b>	<b>11.6</b>
Net cash/(debt)	12.4	20.0	9.2	5.5	17.1
FCFPS - FD (p)	(0.5)	(0.8)	(0.7)	(0.2)	0.8
Balance Sheet	2017	2018E	2019E	2020E	2021E
Property plant and equipment	0.6	0.5	0.3	0.3	0.4
Intangible assets	0.6	1.1	2.6	4.5	9.5
Investments and other non current assets	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	12.4	20.0	9.2	5.5	17.1
Other current assets	0.2	0.1	2.3	9.3	23.7
<b>Total assets</b>	<b>13.9</b>	<b>21.7</b>	<b>14.4</b>	<b>19.6</b>	<b>50.6</b>
Total debt	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Provisions & other current liabilities	(0.6)	(0.1)	(3.9)	(14.3)	(36.0)
Pension deficit and other adjustments	-	-	-	-	-
<b>Total liabilities</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>(3.9)</b>	<b>(14.3)</b>	<b>(36.0)</b>
<b>Net assets</b>	<b>13.3</b>	<b>21.5</b>	<b>10.5</b>	<b>5.3</b>	<b>14.6</b>
Shareholder's equity	13.3	21.5	10.5	5.3	14.6
Minority interests	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>13.3</b>	<b>21.5</b>	<b>10.5</b>	<b>5.3</b>	<b>14.6</b>
Net working capital	(0.4)	(0.0)	(0.7)	(2.6)	(6.8)
NAV per share (p)	1.1	1.7	0.8	0.4	1.1

Source: Company accounts, Investec Securities estimates

## Calendarised Valuation

Year end: 31 December

	2017	2018E	2019E	2020E
Calendar PE (x)	(20.4)	(13.0)	(12.8)	(23.2)
Calendar Price/NAVPS (x)	9.2	6.3	12.8	25.6
EV/sales (x)	high	101.0	4.7	1.2
EV/EBITDA (x)	(22.2)	(10.9)	(10.9)	(25.4)
FCF yield (%)	(4.3)	(7.4)	(6.8)	(2.3)
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company accounts, Investec Securities estimates

## Ratios and Metrics

Year end: 31 December

Ratios and metrics	2017	2018E	2019E	2020E	2021E
Revenue growth (y-on-y) (%)	-	-	2,047.7	296.1	155.5
EBITDA growth (y-on-y) (%)	-	-	-	-	-
Net income (normalised) growth (yoy)	-	-	-	-	-
EPS (normalised) growth (y-on-y) (%)	-	-	-	-	-
FCFPS growth (y-on-y) (%)	-	-	-	-	-
NAVPS growth (y-on-y) (%)	190.0	46.6	(51.2)	(49.9)	177.2
DPS growth (y-on-y) (%)	-	-	-	-	-
Interest cover (x)	(1,580.3)	ns	(125.0)	ns	ns
Net debt/EBITDA (x)	2.4	1.9	0.9	1.2	(1.4)
Net debt/equity (%)	(86.0)	(88.2)	(77.6)	(85.2)	(110.4)
Net gearing (%)	(1,449.2)	(1,295.7)	(674.8)	2,504.8	681.1
Dividend cover (x)	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA margin (%)	n.m.	(925.7)	(43.1)	(4.7)	4.9
EBITA margin (%)	n.m.	(944.4)	(44.9)	(5.4)	4.4
ROE (%)	(46.9)	(54.8)	(117.3)	(129.7)	51.0
ROCE (%)	(40.0)	(49.7)	(103.9)	(99.8)	74.4
NWC/revenue (%)	n.m.	(2.7)	(2.7)	(2.7)	(2.7)
Tax rate (normalised) (%)	0.0	0.0	0.0	0.0	17.0
Tax rate (reported) (%)	0.0	0.0	0.0	0.0	17.0

Source: Company accounts, Investec Securities estimates

## Target Price Basis

Valuation is based on DCF and probability weighted scenario

## Key Risks

Risk is higher than average given EVR early stage monetisation. Key risks include VR headset uptake and MelodyVR penetration, ARPU assumptions and costs. Commercial music deals are vital for the model.

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#### Stock ratings for European/Hong Kong stocks

	Expected total return 12m performance	Count	All stocks		Corporate stocks	
			% of total	Count	% of total	
Buy	greater than 10%	224	63%	85	38%	
Hold	0% to 10%	104	29%	8	8%	
Sell	less than 0%	26	7%	0	0%	

Source: Investec Securities estimates

#### Stock ratings for Indian stocks

	Expected total return 12m performance	Count	All stocks		Corporate stocks	
			% of total	Count	% of total	
Buy	greater than 15%	79	65%	0	0%	
Hold	5% to 15%	27	22%	0	0%	
Sell	less than 5%	16	13%	0	0%	

Source: Investec Securities estimates

#### Stock ratings for African\* stocks

	Expected total return 12m performance	Count	All stocks		Corporate stocks	
			% of total	Count	% of total	
Buy	greater than 15%	36	55%	6	17%	
Hold	5% to 15%	20	31%	2	10%	
Sell	less than 5%	9	14%	1	11%	

Source: Investec Securities estimates

\*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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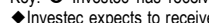
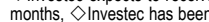
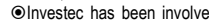
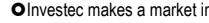
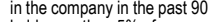
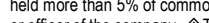
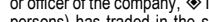
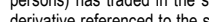
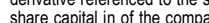
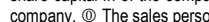




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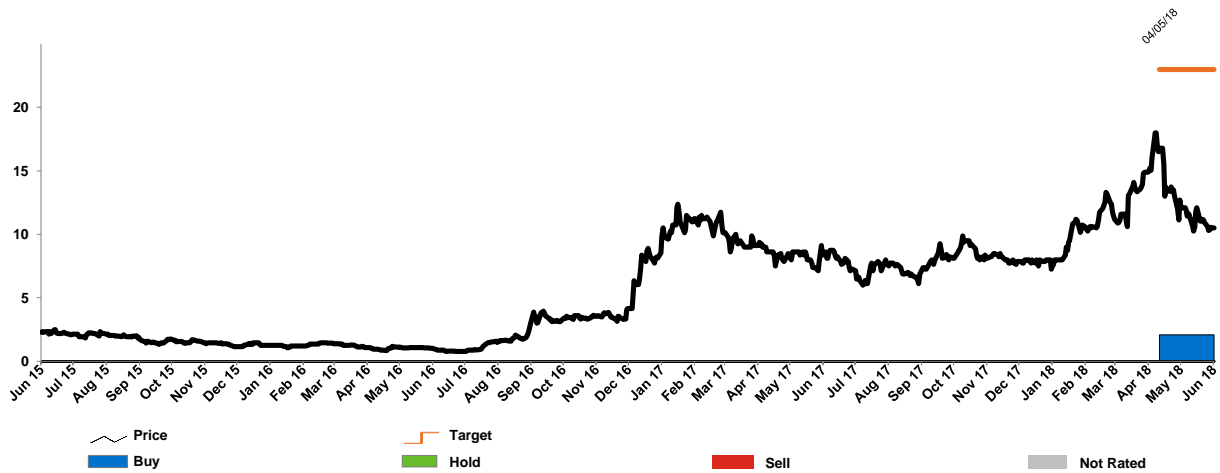
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