Vértice 360

LIGHTHOUSE WINNER 2020 Special Mention — European Small & Mid-Cap Awards

EQUITY - SPAIN
Sector: Media

Report date: 29 Jan 2021
Distribution time: 12:00

Initiation of Coverage
Closing price: EUR 3.86 (28 Jan 2021)

Vértice 360 (VTSG) is a Spanish group present throughout the value chain of the entertainment and media sector through three businesses: (i) Media (essentially advertising; 72.4% of 2021e revenue), (ii) Content (production and distribution of audiovisual content; 16.2%) and (iii) TMT services (11.4% of revenue).

David López Sánchez – david.lopez@lighthouse-ieaf.com
+34 915 904 226

"*Rara avis*": a growth niche in the Media sector?

2020: AN INTEGRATION THAT REPRESENTS A CLEAR INFLECTION POINT. The integration of Squirrel's media/advertising business in July 2020 not only represents a significant step-up in size (fully visible from 2021e) but will also allow VTSG to expand and diversify its activity beyond the traditional business (content): we estimate that in 2021e over 70% of revenue will be generated by the advertising business (reducing the weighting of the content business to c.16%).

WHICH SHOULD ENABLE VTSG TO GROW (A LOT) IN 2021e. The scenario we envisage in 2021e could allow VTSG to achieve: (i) revenues of c. EUR 95Mn (+30% vs 2019 proforma) that, simply as a result of the company's operating leverage, should translate to EBITDA of c. EUR 19Mn (EBITDA margin c. 20%). Maintaining at all times a healthy balance sheet structure (2021e net debt: EUR 0.4Mn) despite the significant investment effort (2021e CAPEX c. EUR 15Mn) needed to boost the content business.

WHICH, ON PAPER, MAKES VTSG A "RARA AVIS". The significant revenue growth estimated for VTSG in 2021e compares with a sector that the consensus expects to still be c. 10% below 2019 levels this year, a level it won't recover until beyond 2023. This makes VTSG a growth niche in a sector that is not growing: *Rara avis*.

THE KEY LIES IN THE SUCCESS OF THE OPERATING EXECUTION OF THE INTEGRATION, and its materialisation in more growth and profitability. 2021e is a crucial year for validating VTSG's capacity for long-term growth and its business model, something that is especially important as it is the only way to provide support for current multiples (2021e EV/Rec. EBITDA c.18x).

GROWTH AND RISK. VTSG is a very different beast today to what it was in 2019. The integration of the media business will provide the critical mass (and financial muscle) to "feed" the traditional business which should imply growth. However, as with any integration and change of business model, this growth is subject to a high degree of uncertainty (aggravated by the macro context), something the business performance in 2021e (2022 is a long way off) will go some way towards dispelling.

Market Data

Market Cap (Mn EUR and USD)	331.2	401.5
EV (Mn EUR and USD) (1)	335.5	406.7
Shares Outstanding (Mn)	85.9	
-12m (Max/Med/Mín EUR)	4.02 / 3.18 / 1.90	
Daily Avg volume (-12m Mn EUR)	0.20	
Rotation(2)	15.1	
Refinitiv / Bloomberg	VTSG.MC / VER SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

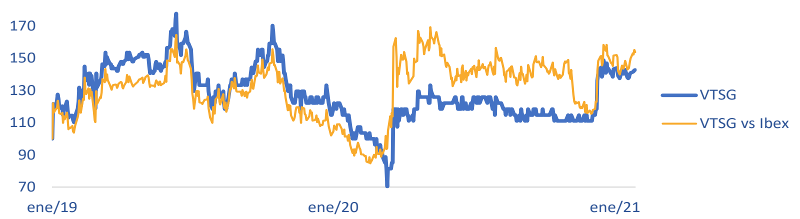
Squirrel Capital	94.3
Free Float	5.7

Financials (Mn EUR)	2019	2020e	2021e	2022e
Adj. nº shares (Mn)	18.9	47.4	85.9	85.9
Total Revenues	10.8	34.8	95.8	126.0
Rec. EBITDA(3)	1.7	4.8	19.0	32.8
% growth	*-30.9*	*185.2*	*292.6*	*72.9*
% Rec. EBITDA/Rev.	*15.7*	*13.9*	*19.8*	*26.0*
% Inc. EBITDA sector(4)	*13.9*	*-30.7*	*13.8*	*19.1*
Net Profit	8.5	2.6	15.3	27.2
EPS (EUR)	0.45	0.05	0.18	0.32
% growth	*274.2*	*-87.8*	*224.3*	*78.2*
Ord. EPS (EUR)	0.04	0.05	0.18	0.32
% growth	*-65.0*	*30.7*	*224.3*	*78.2*
Rec. Free Cash Flow(5)	-5.4	0.8	-0.7	12.2
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	0.5	-0.3	0.4	-11.9
ND/Rec. EBITDA (x)	0.3	-0.1	0.0	-0.4
ROE (%)	*34.8*	*6.2*	*30.2*	*37.9*
ROCE (%)(5)	*3.2*	*6.4*	*30.4*	*41.3*

Ratios & Multiples (x)(6)				
P/E	n.a.	n.a.	21.7	12.2
Ord. P/E	n.a.	n.a.	21.7	12.2
P/BV	n.a.	n.a.	5.7	3.9
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	n.a.	n.a.	3.50	2.66
EV/Rec. EBITDA	n.a.	n.a.	17.7	10.2
EV/EBIT	*n.a.*	*n.a.*	19.7	11.1
FCF Yield (%)(5)	*n.a.*	*n.a.*	*n.a.*	*3.7*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.
(4) Sector: Eurostoxx 600 Media.
(5) Please see Appendix 2 for the theoretical tax rate (ROCE) and recurrent FCF calculation.
(6) Multiples and ratios calculated over prices at the date of this report.

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD
Absolute	1.8	28.5	37.7	-0.4
vs Ibex 35	4.7	4.9	64.6	1.4
vs Ibex Small Cap Index	4.1	2.1	22.6	2.6
vs Eurostoxx 50	2.4	7.1	44.0	-0.5
vs Sector benchmark(4)	-0.7	5.5	46.4	-2.4

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Refinitiv and Lighthouse

2021e can be seen as a great opportunity but also as a "stress test" for the "new" VTSG's business model

Vértice 360 (VTSG) is a company present throughout the value chain of the entertainment and media sector through its businesses of: (i) Media (essentially advertising; 72.4% of 2021e revenue), (ii) Content (production and distribution of audiovisual content; 16.2%) and (iii) TMT services (11.4%).

The important restructuring (2016-2019) and transformation of its business model, via the expansion and diversification of the revenue mix (2020), poses two key questions: What is VTSG today? How do we expect the new business model to perform in the current scenario?

A) After the changes of recent years, what is VTSG today? (January 2021)

In 2016 Squirrel Capital (Pablo Pereiro) acquired Ezentis' controlling shareholding (c. 25% of capital), signalling the beginning of a tough restructuring (2016-2019) that culminated in July 2020 with the integration of Squirrel's media business assets. A transaction that, in our view, represents a real turning point for VTSG's business: in 2021e over 70% of revenue will be generated by the media/advertising business (the weighting of the traditional distribution and production of audiovisual content business decreasing to c. 16%).

The tough restructuring (2016-2019) culminated in July 2020 with the integration of the media business

Accordingly, VTSG is a story of restructuring and transformation for several reasons: (i) renewal of the management team and board of directors, (ii) capital restructuring and (iii) the transformation of the business model with the extension and diversification of the revenue mix (now dominated by advertising). VTSG is a very different beast today (January 2021) to what it was in 2019 and in the first half of 2020. We can say that the company has changed radically in three ways:

The change of consolidation perimeter represents a significant step-up in size (fully visible from 2021e)

- **Size.** The integration of Squirrel Capital's media/advertising business represents a genuine step-up in scale, multiplying both turnover (2019 proforma revenue: c. EUR 73Mn; vs c. EUR 11Mn in 2019), and EBITDA. It also means the expansion of its market, replacing the ceiling of the domestic business with internationalisation (revenues from outside its core markets -Spain and Italy- already account for c. 12%; vs a traditionally domestic business).
- **Business model.** The commitment to the advertising activity (c. 70% of 2021e revenue) implies a radical change of business model: (i) now less volatile (reducing the dependence of the P&L on the success of the new releases of the content area), (ii) less capital-intensive and (iii) with a greater ability to grow and generate cash.

Maintaining a healthy balance sheet structure (net cash of EUR 0.3Mn in 2020e)

- **Capital structure.** Debt is no longer a problem for VTSG's balance sheet (we estimate net cash of c. EUR 0.3Mn at the 2020e close). This should allow access to new financing and accelerate new investments in the audiovisual content area (we estimate high CAPEX in 2021e and 2022e) and should also allow the company to maintain its strategy of continuing to grow via M&A.

B) And now what? High growth in 2021e is possible… Why?

The integration of Squirrel's media business in July 2020 enables VTSG to aspire to a genuine step-up in scale although this will not be fully visible until 2021e (in 2020e the media business will only be consolidated from August to December). In 2020e, the scenario we envisage should allow VTSG to achieve: (i) revenue of, at least, EUR 35Mn (vs EUR 11Mn in 2019), (ii) reasonable profitability (Rec. EBITDA of c. EUR 5Mn; EBITDA margin c. 14%) and (iii) a healthy balance sheet (net cash of c. EUR 0.3Mn). However, in proforma terms decline will be inevitable (c. -25% vs 2019 proforma revenues; which should not come as a surprise to anybody).

But perhaps the most interesting aspect is what to expect in 2021e, a year that will not only reveal the size of the integration of the media business in quantitative terms (simply due to the mathematical effect of consolidating a full year), but also reflect the fruits of the strategic change of direction and change of business model in qualitative terms and allow VTSG to grow in 2021e by more than the economy and significantly outperform its own sector, essentially as a result of:

There are enough "micro" reasons to allow VTSG to grow in 2021e by more than the economy (and its own sector)…

- **The media business' focus on digital clients** at the growth stage, for whom spending on advertising is indispensable (vs large sector players' high exposure to conventional businesses for which the recovery of pre Covid-19 levels will take longer).

- **The credible capacity for recovery of the content business,** essentially due to the "take-off" of revenue generated by distribution via platforms and the licencing of the catalogue to TV (a growth driver unaffected by the success of new releases in cinemas).

- **The consolidation of TMT services** to 2019 levels (a year in which the satellite services business was only consolidated for two months).

… and result in significant growth in revenues and EBITDA (EUR 95Mn and EUR 19Mn, respectively in 2021e)

We think these three factors will drive VTSG's business and result in significant growth in revenues to c. EUR 95Mn in 2021e (+30% vs 2019 proforma), that, simply as a result of the company's operating leverage (the result of an undemanding cost structure), should translate to EBITDA of c. EUR 19Mn (EBITDA margin c. 20%) while maintaining at all times a healthy balance sheet structure (2021e net debt: EUR 0.4Mn), despite the significant investment effort (2021e CAPEX c. EUR 15Mn; Table 1).

Table 1. Consolidated KPIs (2019-2022e)

EUR Mn	2019	2020e	2021e	2022e
Media	-	20.8	69.3	83.4
Content	7.6	5.9	15.5	29.0
TMT services	3.2	8.2	10.9	13.7
Total Revenues	**10.8**	**34.8**	**95.8**	**126.0**
Gross Margin	**5.8**	**11.2**	**28.6**	**43.7**
Operating expenses	(4.2)	(6.3)	(9.6)	(10.9)
Recurrent EBITDA	**1.6**	**4.8**	**19.0**	**32.8**
Rec. EBITDA/Revenues	*15.7%*	*13.9%*	*19.8%*	*26.0%*
Capex	(5.8)	(3.2)	(14.8)	(15.1)
Recurrent Free Cash Flow	**(5.4)**	**0.8**	**(0.7)**	**12.2**

As with every integration and change of business model there are two issues that need to be resolved: (i) the operating execution of the integration of the media business and (ii) its materialisation in higher growth for the group (which explains why any future estimate is subject to a high level of uncertainty). However, in this case, VTSG has an advantage: the business acquired is owned by its core shareholder (which should make integration easier).

The key lies in the success of the execution of the integration

What would be the worst case for VTSG in 2021e? Media business gross margin levels remaining similar to those expected in 2020e (c. 20% vs our estimate of c. 28% in 2021e) together with a slower than expected recovery of the content business (levels of turnover reaching c. EUR 10Mn vs our estimate of EUR 15Mn) would have a very negative impact on our estimates (2021e EBITDA c. EUR 9.5Mn; c. -50% vs our initial estimate). This shows that although the business risk has been reduced it has not disappeared.

C) In conclusion: the key lies in the success of the execution of the integration. And its materialisation in more growth and profitability: size? speed?

The current snapshot is of a fully restructured and growing company. In our opinion, the integration of the media business in July 2020 not only represents a significant step-up in size for the company (2021e revenues: c. EUR 95Mn), but also resolves the "Catch 22" of its content business.

Joseph Heller defined a "Catch 22" as a negative situation that the very rules of the game make it impossible to escape from: a paradox that leads to a dead end. In our view, this was the situation in which VTSG found itself in 2019 with: (i) a traditional business (Content) with little critical mass (2019 revenue: EUR 11Mn), (ii) highly intensive as regards capital ("crucial" for maintaining and renewing its catalogue) and (iii) limited financing capacity that prevented it from accessing the capital necessary to make new investments with which to drive growth. This was the "Catch 22" that prevented VTSG from accelerating its growth.

The integration of the media business in 2020 allows VTSG to resolve its "Catch 22"

Now (January 2021) things are very different. The integration of the media business in 2020 should provide the critical mass (and the capacity for cash generation) necessary to "feed" the content business (and without excess debt: 2020e ND c. EUR 0.4Mn). This not only allows VTSG to resolve its "Catch 22" and escape the maze, but also opens up a new horizon of opportunities that should mean growth.

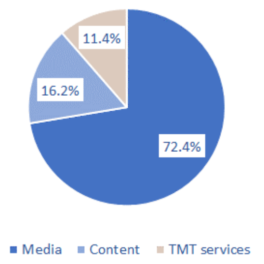
All this explains "on paper" the large growth spread expected for VTSG vs the sector. We estimate +30% in revenue (vs 2019 proforma) vs a sector that the consensus expects to still be c. 10% below 2019 levels in 2021e. A consensus that defers the recovery of sector levels seen in 2019 beyond 2023e. Which makes VTSG a "rara avis".

2021e can be seen as a great opportunity but also as a "stress test" for VTGS's business model.

2021e is a crucial year when it comes to assessing the strength and credibility of the very high growth expected for the "new VTSG" and whether the singular nature of the business model will allow it to significantly outperform the sector. Given the low market visibility, 2022e still seems a long way off. Accordingly, the crucial year is this one (2021e): it will be the proof that we are looking at a niche with high growth in a sector in which this is almost non-existent. In some ways, and after the merger with Squirrel, 2021e can be seen as a great opportunity but also as a "stress test" for VTSG's business model.

The "new" Vértice: a step-up in size, no debt, diversified (but now dominated by advertising) and with an international presence

Chart 1. 2021e Revenue Mix



Note: VTSG incorporates the media division in July 2020 (with the non-monetary contribution of the Squirrel Group's media area). In 2020e VTSG will consolidate the media business for five months. 2021e figures.

Vértice 360 (VTSG) is a Spanish group (Mkt. Cap. c. EUR 330Mn) present throughout the value chain of the entertainment and media sector through three businesses: (i) Media (essentially advertising; 72.4% of 2021e revenue), (ii) Content (production and distribution of audiovisual content; 16.2%) and (iii) TMT services (11.4% of revenue).

After a tough restructuring and transformation process, the company has radically changed its traditional business (Content): today over 70% of revenue comes from the Media/Advertising business (integrated in July 2020). This restructuring is also reflected in the geographical mix: revenue generated outside Spain (2021e) now accounts for c. 42% of the mix (c. 31% in Europe and c. 11% in Latam), which strengthens the company's international presence. Accordingly, VTSG is a story of restructuring and transformation so a brief review of its history is called for.

VTSG was caught up in the turbulence caused by the crisis of 2008, forcing it to sell its main assets and initiate insolvency proceedings (2014)

VTSG was created in 2006 as a result of the grouping of the audiovisual assets of Avanzit (now Ezentis). After absorbing various audiovisual sector companies via capital increases, VTSG became a key industry player in Spain, obtain< A ning turnover of > EUR 140Mn in 2011, prior to what would prove to be a turning point for its P&L. The Spanish public television crisis caused by the large reduction in spending on advertising (with falls of c. 35% in 2012) and the reduction in the state budget for regional television (with cuts of c. 20% between 2009 and 2012) hit the company hard, requiring:

- **The sale of its principal assets.** The company's indebtedness (c. EUR 50Mn in 2011) forced VTSG to sell its principal assets in 2012: the private equity fund H.I.G. acquired 49.9% of Audiovisual Services (c. 75% of 2012 revenue), acquiring the whole division in July 2013 (including assets such as Telson and Videoreport; today owned by Mediapro).

- **That meant a dramatic shrinking of the P&L,** reducing turnover below EUR 10Mn in 2013 (vs > EUR 140Mn in 2011).

- **And forced the company to initiate insolvency proceedings.** After various changes of management team (with four different CEOs between 2011 and 2014), VTSG declared insolvency in April 2014 due to the impossibility of reaching an agreement to tackle its still high level of debt (2013 ND: EUR 24.2Mn for revenue of EUR 8.6Mn).

2016 -2019: Restructuring (capital structure, traditional business, board, etc.)

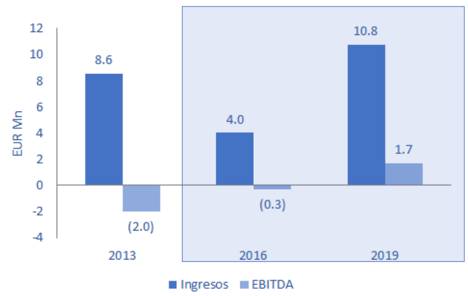
2016 marked the beginning of a tough restructuring process which took place over 2016-2019 and was underpinned by the following three mainstays:

- **Total change of the management team.** In 2016 Squirrel Capital (Pablo Pereiro) acquired Ezentis' controlling shareholding (c. 25% of capital), which meant a total renewal of the board of directors and management team.

- **Restructuring of debt and the capital structure.** In 2017 a creditors' agreement was approved that allowed VTSG to exit insolvency. In addition, the capital structure was remedied via a number of capital increases: (i) EUR 5.6Mn in 2018 and (ii) EUR 24.5Mn in 2019 (EUR 12.5Mn of which corresponded to the non-monetary contribution of the media assets of the Giglio Group).

- **Reorganisation and internationalisation of the traditional business,** focusing its activity on the content area (through the distribution of its cinema catalogue). This, together with exhaustive control of costs, has enabled VTSG to maintain positive recurrent EBIT (EUR 0.9Mn in 2019; EUR 8.8Mn including extraordinaries).

Chart 2. Total Revenues and EBITDA (2013-2019)



However, while in 2019 VTSG demonstrated: (i) an ability to generate positive EBIT (vs heavy losses in 2009-2013), and (ii) a balance sheet structure for which debt was no longer a problem, restructuring had left the company a costly inheritance: a practically non-existent business (2019 revenues: c. EUR 11Mn) and no assets.

2020e: end of the adjustment process. A significant step-up in size with the integration of Squirrel

In July 2020, VTSG approved the integration of the media area of the Squirrel Group (its main shareholder owned by Pablo Pereiro), via a non-monetary contribution valued at EUR 220.5Mn (at the lower end of the range included in the last valuation report issued by PwC in May 2020; -9% vs the valuation of December 2019). In our view, this transaction implies:

- **A significant step-up in scale…** Allowing the new VTSG to exceed turnover of EUR 95,8Mn in 2021e. The integrated assets will provide c. 70% of the new company's revenue in 2021e, mainly through the advertising business (chart 4), a business that in 2019 had turnover of c. EUR 58Mn (based on proforma figures provided by the company; excluding interco transactions).

- **…in a business that is less capital-intensive, more recurrent and cyclical.** The transaction not only represents a step-up in size (multiplying turnover), but also implies a commitment to a completely different activity: advertising, a less capital-intensive and more recurrent business (reducing dependence on the success of the film releases of the content area). It also provides a larger international presence (mainly Europe, c. 31% of revenue and Latam c. 11%).

- **Without requiring debt.** The integrated assets contribute a net cash position that leaves VTSG's balance sheet free of debt (2020e Net Cash: c. EUR 0,3Mn). The current capital structure will enable the company to access new financing and make new investments in the audiovisual content area. It will also allow the company to maintain its strategy of continuing to grow via M&A.

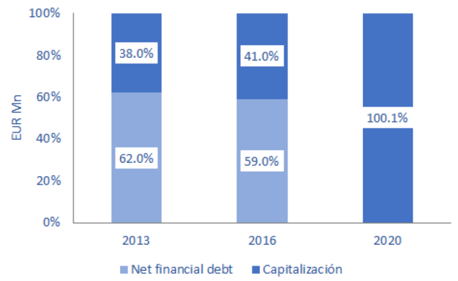
- **But with significant dilution for minority shareholders.** The value of the contribution (EUR 220.5Mn) means an increase in the shareholding of Squirrel Capital to c. 94% (chart 5).

With a principal shareholder that maintains (and increases) its control of the company and heads the management team

The successive capital increases have increased the shareholding of Squirrel Capital (Pablo Pereiro) to c. 94% (from an initial 25% in 2016). This makes him the owner: he holds the positions of Chairman of the Board (with 4 of its 7 independent members) and CEO of the company.

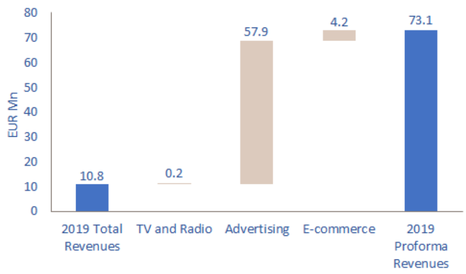
The free float has been reduced to 6%. However, the company has said it is looking at ways of increasing the stock's liquidity, with the principal shareholder aiming to significantly increase the current free float in the mid/long term.

Chart 3. Enterprise Value (2013-2019)



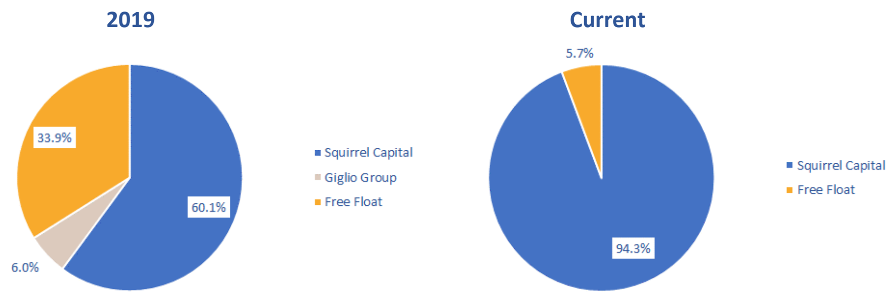
Note: Market Cap at year end.

Chart 4. Integration of the media area of Squirrel in 2019 proforma revenue



Note: Proforma figures provided by the company (Ordinary general meeting of July 30, 2020)

Chart 5. Shareholder structure (Current vs 2019)



After the changes of recent years, what is VTSG's business like now? (January 2021e)

The catharsis experienced by the company in the last 10 years has completely transformed the Group: (i) renewal of the management team and board of directors, (ii) capital restructuring and (iii) the transformation of the Group thanks to the extension and diversification of its traditional business model (now dominated by advertising). So to put it simply: what is VTSG today? At present, the company operates through three very different business lines:

- **Media (72.4% of 2021e revenue).** Integrated in 2020 with the media area of Squirrel Capital. The division focuses mainly on the provision of services through its marketing and advertising agency (Best Option Media) and its buying centre (Squirrel Global Media). This is a business whose main activities are: (i) Strategic media planning, (ii) Consultancy and (iii) Events and communication. The division is present both in Spain (c. 57% of revenues) and in Europe (c. 29%) and Latam (14%), which strengthens its international presence. It also has an E-commerce area (c. 5% of the division's revenues).
- **Content (16.2% of 2021e revenue),** through the distribution and production of all kinds of audiovisual content (mainly TV and cinema). A business line that is very intensive in capital ("crucial" for maintaining and renewing the catalogue) and whose P&L is highly dependent on the success of its content. In 2020, VTSG signed several contracts with various production companies for the acquisition of distribution rights that should require CAPEX of c. EUR 14Mn, EUR 15Mn and EUR 15Mn in 2021e, 2022e and 2023e, respectively. The rights signed include agreements for distribution in Spain, Andorra, Italy, Portugal and Latam. This will increase the division's international presence (vs a traditionally domestic business).
- **TMT services (11.4% of 2021e revenue).** Although VTSG has traditionally focused on the provision of audiovisual services (providing the technical means for content production), the integration of the Giglio Group assets in October 2019 has allowed the company to increase its offer of services, including: (I) two teleports (Milan and Rome), (ii) streaming and broadcasting of live events and (iii) integration systems. In this way, VTSG diversifies its services area (now not just audiovisual services) and increases its presence outside Spain (81% of the division's revenue).

Chart 6. Revenue Mix (2021e vs 2019)

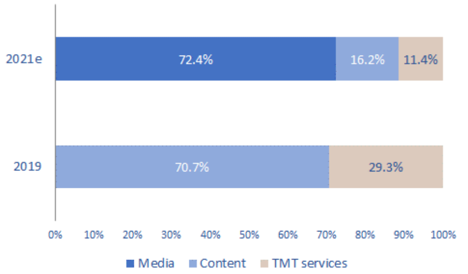


Chart 7. Total revenues by geography (2021e vs 2019)

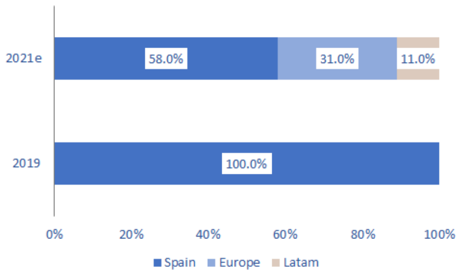
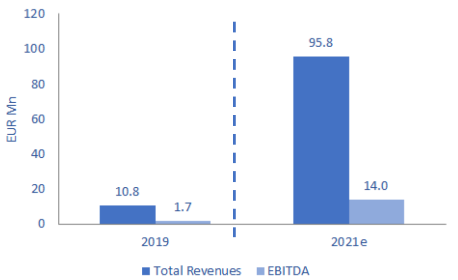


Chart 8. Integration of the media area impact on revenue and EBITDA (2021e vs 2019)



After this tough restructuring and transformation, VTSG is a very different beast today (January 2021) to what it was in 2019 and also in 2020. We can say that the company has changed in three ways:

- **Size.** The integration of the media area of Squirrel Capital represents a significant step-up in scale, multiplying both turnover and EBITDA (chart 8). It also implies the extension of the company's market, replacing the ceiling of the domestic market with internationalisation (revenues from outside its core markets -Spain and Italy- are already c. 12% vs a traditionally domestic business).
- **Business model.** The commitment to the advertising business means a radical change of business model: (i) less volatile (reducing the dependence of the P&L on the success of the new releases of the content area), (ii) less capital-intensive and (iii) with a larger international presence (43% of revenue).
- **Capital structure.** Debt is no longer a problem for VTSG's balance sheet. This should provide access to new financing and resolve the main restriction of the content area: the making of new investments.

In conclusion, the integration of the media area of Squirrel Capital in July 2020 has totally transformed the company. It has not only resulted in a significant step-up in size but also represents a radical change in its business (more diversified, although dominated by advertising). As with any integration and change of business model the challenges are twofold: the operating execution of the integration and its materialisation in enhanced growth and profitability for the company.

Advertising: a cyclical sector, mature and with a tendency for concentration (and with room for niches)

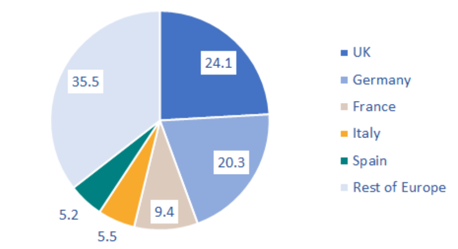
With the incorporation of the assets of Squirrel Capital, c. 70% of Vértice 360's (VTSG) revenue mix now relies on the advertising industry. Accordingly, this section will focus almost exclusively on analysing the advertising industry in Europe and Spain (c. 86% of the company's advertising business revenues).

The services provided by VTSG through its marketing and advertising agency (Best Option Media) mainly include: (i) Strategic media planning, (ii) Consultancy and (iii) Events and Communication. According to a report by MarketLine (2019), media planning (the main source of income of Best Option Media's business) will be one of the industry segments to grow the most, as identifying appropriate ways in which to reach a highly fragmented target audience is an increasingly complex task (the trend is to be increasingly selective in the ways of impacting the consumer/user).

In Europe, the advertising industry is dominated by large international agencies (WPP, Omnicom, Publicis, Dentsu Aegis and Interpublic), with a presence throughout the value chain. Their large size makes competition tougher, acting as an entry barrier. However, the constant change facing the industry provides opportunities for companies with niche products such as VTSG (which has significantly higher growth rates than those of its sector).

The specificities of VTSG's business vs its sector are explained in the business description and financial analysis sections of this report. The contents of this section will focus on the advertising industry as a whole, analysing its main trends and prospects.

Chart 9. Advertising industry in Europe (% market share, 2018)

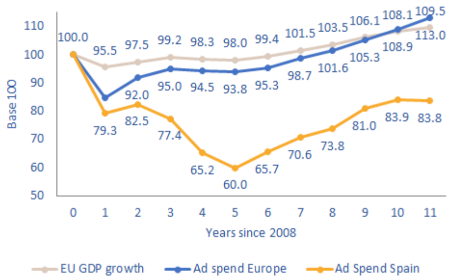


Source: Marketline (February 2019). The industry size reflects the revenue obtained by advertising agencies.

Spending on advertising: Inevitably cyclical. With little structural growth (mature sector)…

Spending on advertising is typically cyclical, showing a very close correlation to the economic situation, being one of the first items of expenditure to be reduced at times of recession (which means high sensitivity to periods of crisis). The Lehman crisis (2009) led to a c. 15.5% decline in spending on advertising in Europe (vs 4.5% for the EU GDP), recovering subsequently by 9% in 2010 (vs 2.1% for the EU GDP). However, pre-crisis levels were not seen again until 2016. In Spain, spending on advertising fell even more (due to the performance of core sectors such as property), hitting bottom in 2013 (-40% vs 2008), followed by a much slower recovery than in Europe (and is still c. 15% below levels of 2008; chart 10).

Chart 10. EU GDP and spending on advertising recovery since the Lehman crisis (in years)



Source: Europe spending on advertising according to IAB Europe (Interactive Advertising Bureau). Spending on advertising in Spain according to Infoadex (controlled media). Base 100 = 2008).

In 2019, according to the latest data released by IAB Europe (Interactive Advertising Bureau), total spending on advertising in Europe was EUR 128.5Bn (+1.1% CAGR 2008-2019; since the last cycle peak), with the UK and Germany as the largest markets accounting for c. 45% of the total volume. Spain ranked fifth, with similar levels of spending to Italy's (c. 5.5% of the total).

Chart 11. Spending on advertising in Spain vs Spanish GDP

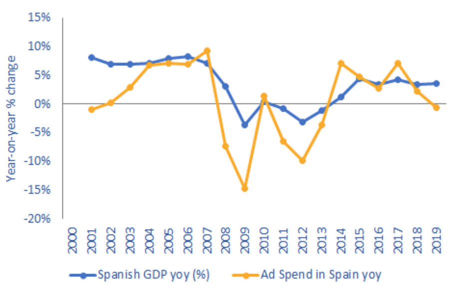
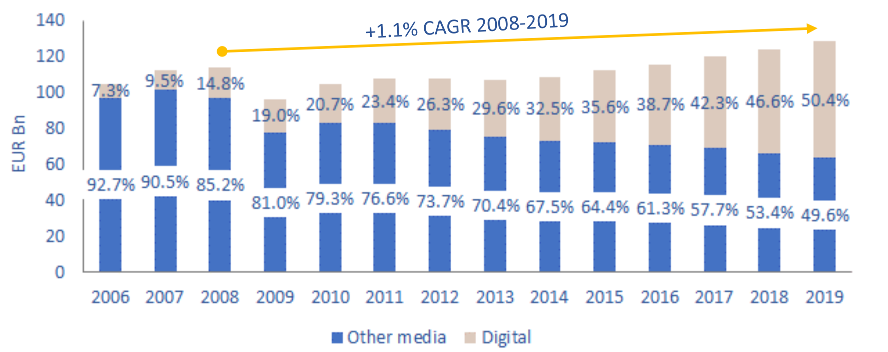


Chart 12. Spending on advertising in Europe (2006-2019).



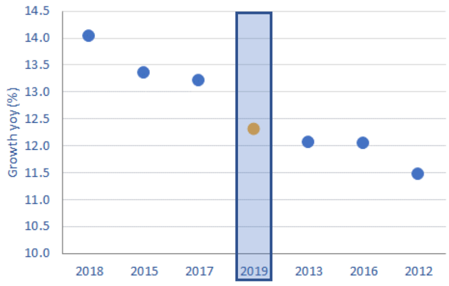
Source: IAB Europe.

… although boosted by digital media (+13.1% CAGR 2008-2019). The "game" is being played on the internet

Despite the low sector growth since the last cycle peak (+1.1% CAGR 2008-2019), the various types of media have performed very differently.

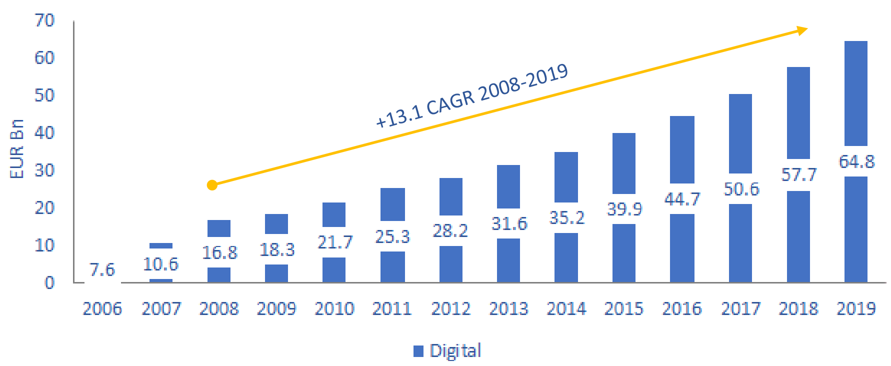
This underlines the far-reaching transformation of the sector in the last 15 years: digital media now rule in Europe, with a share of over 50% for the first time in 2019 vs other media (vs < 15% in 2008). This has resulted in constant double-digit growth rates in the last cycle (+13.1% CAGR 2008-2019; charts 12 and 14).

Chart 13. Growth in digital media in Europe (Ranking; %)



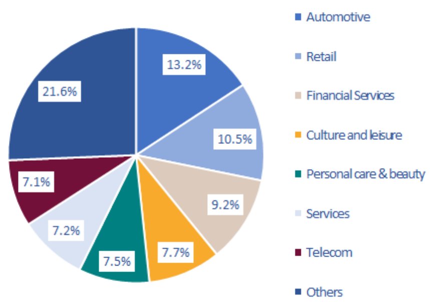
Source: IAB Europe.

Chart 14. Spending on advertising through digital media in Europe (2006-2019)



Source: IAB Europe.

Chart 15. Spending on advertising in Spain by sectors (2019)



Source: Infoadex 2020

In Spain, digital media have recorded double-digit growth similar to that seen in Europe (+12.8% CAGR 2008-2019), and in 2019 were in first place by volume of spending with growth of 8.8% vs 2018 (EUR 2.296Bn; Infoadex, 2020). However, their weighting of the media monitored by Infoadex (c. 43% of the estimated total market) is still smaller than the levels seen in Europe (39% vs > 50%). And the other media? In 2019 all print advertising suffered large falls (dailies -9.1%, magazines -14.5% and Sunday papers -7.8%). The other media monitored by Infoadex (barring TV; -5.8%) increased their volume of activity in 2019 (cinema +5.2% and outdoor and radio +1.5%).

And by sectors? In Spain, according to Infoadex data (chart 15), the five leading sectors account for 48.1% of the monitored spending on advertising: (i) Once again Automotive was the sector that spent the most on advertising in 2019 (-0.7% vs 2018) accounting for 13.2% of total spending, followed by (ii) Retail and Hospitality with 10.5% (-3.2% vs 2018), (iii) Finance (-13.3% vs 2018), (iv) Culture and Media (+7.9% vs 2018) and, with a certain decline, (v) Cosmetics and Personal Care (-5.1% vs 2018). Clients include large companies such as Volkswagen (2% share), El Corte Inglés (1.7%) and L'Oréal (1.6%). The 20 biggest spenders accounted for c. 24% of total monitored spending on advertising in Spain.

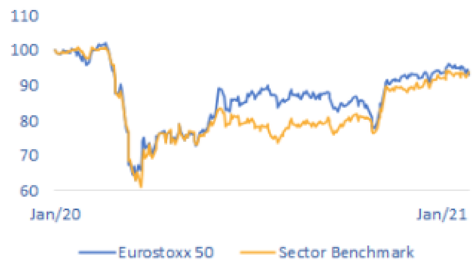
And with a tendency towards concentration (driven by M&A)

The main advertising agencies belong to large international groups (WPP, Omnicom, Publicis, Dentsu Aegis and Interpublic) able to provide services throughout the value chain. Their large size makes competition tougher and acts as an entry barrier. Given the low growth and constant change facing the sector, M&A is a logical way to grow with the focus on smaller companies offering niche products and with clear growth potential (driven by the new forms of communication and technological development).

The acquisition of Comunica+A (by Dentsu Aegis) and Shakleton (by Accenture) has put an end to the two biggest remaining agencies with 100% Spanish capital (and that could compete at the same level with the large agencies).

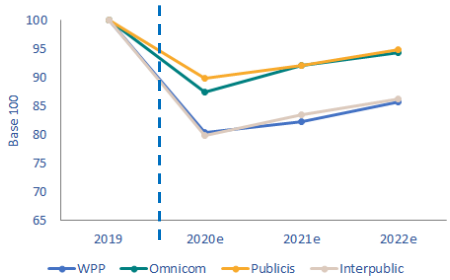
We would also point out the role being played by large consultants (such as Deloitte and Accenture) in sector concentration. Accenture has been the most active company in advertising sector M&A in Europe in the last three years (in 2019 it acquired 10 companies). Globally, Bain Capital acquired a majority shareholding in Kantar from WPP (8.2x EV/EBITDA) and Publicis acquired Epsilon for USD 4.0Bn (8.2x EV/EBITDA) to increase its digital clout.

Chart 16. STOXX Europe 600 Media vs Eurostoxx 50 (Base 100)



Sector Benchmark = STOXX Europe 600 Media

Chart 17. Main listed advertising agencies total revenues estimates 2019-2022e



Source: Refinitiv Consensus. Base100 = 2019

Covid-19: And now what? For the sector, decline is inevitable… Although online advertising as a source of growth is more important than ever

At this point, and given the cyclical nature of the business, there can only be one question: how is Covid-19 impacting the advertising sector? According to data released by the Interactive Advertising Bureau (IAB), c. 25% of advertisers and brands "froze" their spending on advertising until at least the end of 2Q20, with spending on advertising in Europe estimated to have fallen 16.3% over the whole of 2020e. However, the situation is not the same for all: online advertising is more important than ever, so digital media will be the least affected (-5.5% in 2020e vs -21.3% for the rest of the media).

By sectors, the reduction in spending on advertising is expected to be greater in those most affected by lockdown and social distancing measures (travel, automotive, entertainment, health, fitness…), while businesses such as telecommunications, OTT services or online retail, should prove to be more resilient.

Once the Covid-19 crisis has ended sector demand and spending on marketing are expected to recover at the end of 2020 and throughout 2021 although in the wake of the 2008 crisis in Europe the advertising industry was slower to recover than other cyclical sectors (requiring 8 years to recover pre-crisis levels of spending; see chart 10 at the beginning of this section).

The main listed advertising agencies are expected to see a c. 20% reduction in revenues in 2020e, before picking up in 2021e and 2022e (although still without having recovered 2019 levels in 2022e; chart 17).

Table 2. Main listed advertising agencies EV/EBITDA, EV/EBIT and FCF yield (2019-2022e)

	EV/EBITDA				EV/EBIT				FCF yield			
Company	**2019**	**2020e**	**2021e**	**2022e**	**2019**	**2020e**	**2021e**	**2022e**	**2019**	**2020e**	**2021e**	**2022e**
WPP	8.3	9.8	8.4	7.8	11.5	12.3	10.7	9.8	1.7	4.0	7.7	9.1
Omnicom	8.2	8.8	8.0	7.6	9.1	9.8	8.8	8.5	7.2	10.0	10.7	11.6
Publicis	6.5	7.7	7.2	6.9	10.0	11.9	10.6	10.2	10.7	7.9	11.6	12.2
Interpublic	8.1	10.1	8.6	8.1	10.1	12.0	10.5	9.9	4.1	7.1	9.1	10.0
Media	7.8	9.1	8.1	7.6	10.2	11.5	10.1	9.6	5.9	7.3	9.8	10.7

In conclusion, although the sharp fall in economic activity will result in an inevitable reduction in spending on advertising in 2020e, the Covid-19 crisis is also having an impact on consumer behaviour (causing consumption of online content to skyrocket). This should drive even more (if possible) advertising through digital media. The sharp fall in activity could accelerate corporate movements (increasing the interest in advertising sector companies present in digital niches with evident growth potential).

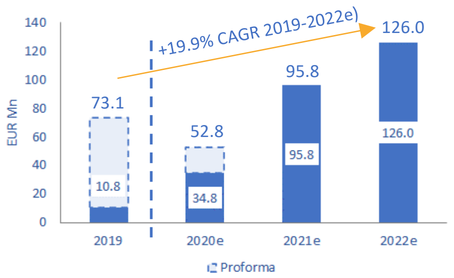
Entertainment: in continuous transformation

Finally, c. 16% of VTSG's sales come from the Entertainment industry through the distribution of audiovisual content and services. This is an industry in transformation facing a clear challenge: to satisfy an increasingly fragmented audience with the focus on personalisation (consumption where, when and how they want). This explains the paradox of the sector during the Covid-19 crisis: activity "frozen" and consumption skyrocketing: at least online.

According to PWC data, Covid-19 is expected to have a significant impact on the entire global film industry, with revenues expected to shrink by c. 65% in 2020e due to social distancing measures, which have resulted in the closure of cinemas, delays to film releases and the cancellation of projects. Although a strong recovery is expected in 2021e and 2022e, estimated revenues for the industry as a whole will remain below 2019 levels for the next five years (-2.4% CAGR 2019-2024e).

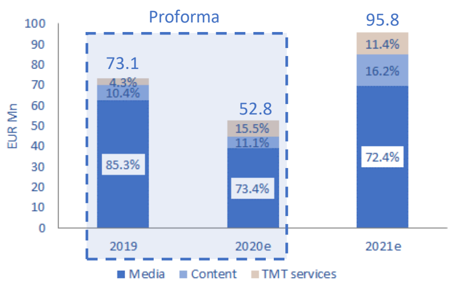
2021e: Reasons to significantly outperform the sector. And a "stress test" of the capacity for business growth

Chart 18. Proforma revenues (2019-2022e)



Note: VTSG integrates Squirrel's assets in July 2020. Proforma 2020e numbers include our estimate of VTSG's 2020e revenue (EUR 34.8Mn) and the revenue generated (and not consolidated) by the assets of Squirrel during January-July 2020, excluding interco transactions (according to the registration document dated 3 December 2020).

Chart 19. 2021e Total Revenues vs Proforma 2020e and 2019



Note: Proforma 2020e and 2019 numbers included exclusively for illustrative purposes. Proforma 2020e numbers correspond to our estimate of revenue for the whole year (see annexes 1 and 2) and the revenue generated (and not consolidated) by the assets of Squirrel during January-Julio 2020 (excluding interco transactions).

The current macro context has not caught VTSG unprepared (as it did in 2011). The company has executed a significant restructuring and transformation process in recent years, involving: (i) a very significant step-up in size (with the integration of Squirrel's media business; although this will not achieve full visibility until 2021e results), (ii) the transformation and diversification of the traditional business (now dominated by the media/advertising business; >70% of 2021e revenue) and (iii) the improvement of the financial position (with a net cash position of EUR 0,5Mn in September 2020 vs the high debt of previous periods). Now, as with every integration and change of business model, the focus will be on operating execution and its materialisation in more growth for the company.

The change of consolidation perimeter that occurred in July 2020 will significantly distort any comparative analysis with the company's past (see annexes 1 and 2 of this report; 2020e results only consolidate the integrated assets for five months). For illustrative purposes, chart 18 shows the impact on revenue of the integration of the assets of Squirrel in proforma terms (using 2019 as the base and the 2020e figure being a Lighthouse estimate).

In this situation, where the level of uncertainty remains high due to the potential toughening of measures to contain the pandemic, what is the central scenario behind Lighthouse's projections for VTSG in 2021e-2022e?

High growth is possible despite the macro backdrop… Why?

Although a decline in proforma terms in 2020e is inevitable due to the devastating impact of Covid-19 in 1H20 (chart 18), there are enough "micro" reasons to allow us to estimate a significant rebound in VTSG's turnover in 2021e to c. EUR 95Mn (+30% vs proforma 2019!; chart 19). What are these reasons? By business line:

- **Media (EUR 69Mn; 72.4% of 2021e revenue).** We estimate that the media business, dominated essentially by the group's advertising activity, will generate revenue of c. EUR 69Mn in 2021e. This would imply growth of c. 78% vs proforma 2020e (and +11% vs proforma 2019 levels) and would explain the c. 70% revenue growth estimated for 2021e.

  The strong rebound in the media business compares really positively with its sector (2021e growth < 5% according to Refinitiv consensus), mainly due to: (i) specialisation in e-commerce businesses where spending on advertising is indispensable (vs the high exposure to conventional businesses of large industry players), (ii) a portfolio of clients comprised mainly of digital, growth companies (Vinted and Babbel are an example; that will not just maintain but increase their spending), (iii) sector diversification (tourism now represents less than 20%) and (iv) the ability to grow with new clients (that will offset the slower recovery of those sectors most impacted by the pandemic; chart 20).

Chart 20. VTSG's advertising business mix of clients by sector (Current vs 2019)

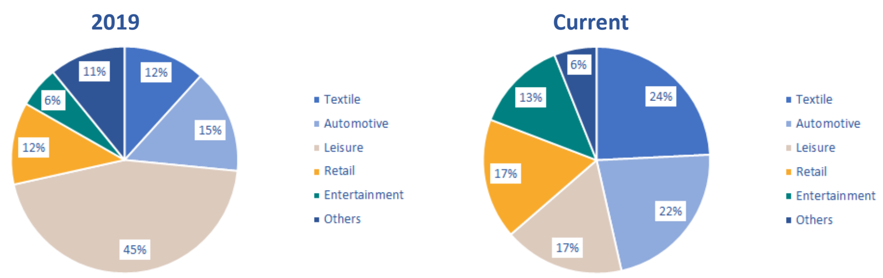


Chart 21. Ingresos de Contenidos y número de estrenos/año (2019-2022e)

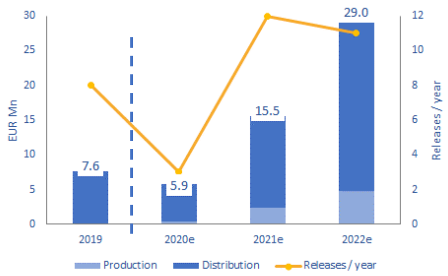
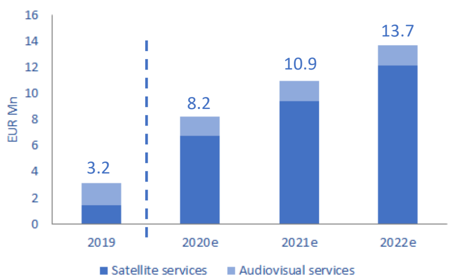


Chart 22. TMT Services revenues (2019-2022e)



Note: The satellite services business was acquired from Giglio Group in October 2019, so in 2019 was only consolidated in November and December (EUR 1.5Mn). We estimate that the business acquired contributed revenues of c. EUR 8-9Mn in 2019 in proforma terms. Which explains the big increase in 2020e.

- **Content (EUR 15.5Mn; 16.2% of 2021e revenue).** Covid-19 has had a strong impact on the audiovisual content business, with a significant reduction in the number of releases of new titles in cinemas in 2020e (c. 3 vs 8 in 2019). However, the impact of Covid-19 has also changed the way content is distributed, with a significant increase in revenue obtained from distribution via VOD, SVOD (subscription video on demand platforms; Apple TV+, Movistar +, Prime Video, etc.) and the licencing of the catalogue to TV. In our view, this should partly offset the impact on revenue of the reduction in the number of new releases in cinemas allowing the content business to generate revenue of c. EUR 6Mn in 2020e (-23% vs 2019).

  What about 2021e? We estimate a strong rebound in the business to revenue of c. EUR 15Mn (doubling 2019 levels). In our view, there are two main levers that explain this significant "take-off" of the content business:

  - **The recovery of revenue from new releases in cinemas to EUR 5.5Mn (vs EUR 1.2Mn in 2020e)** explained by: (i) the ability to release c. 12 titles (vs 8 in 2019 and 3 in 2020) as VTSG will strive to ensure that both new films and those that the pandemic has forced to put on hold will reach the market although obviously with significantly smaller estimated takings than in 2019, (ii) the inclusion of new titles in the catalogue (we estimate 2021e capex of c. EUR 15Mn vs c. EUR 6Mn in 2019) and (iii) the ability to distribute the new titles outside Spain (vs a 100% domestic business in 2020e).

  - **The continuous growth in the consumption of content through streaming platforms,** together with the licencing of the catalogue to televisions, that we expect to drive revenue, in 2021e to c. EUR 7.5Mn (vs EUR 4.1Mn in 2020e).

- **TMT services (EUR 10.9Mn; 11.4% of 2021e revenue).** This division includes two businesses: (i) satellite services (acquired from the Giglio Group in October 2019 with "theoretical" turnover of c. EUR 8-9Mn; and that was only consolidated for two months in 2019) and (ii) audiovisual services (VTSG's traditional business with the ability to generate recurrent turnover of c. EUR 1.5Mn).

  The strong growth expected for 2021e is basically explained by the recovery of the satellite services business' turnover to EUR 9.5Mn (in line with proforma revenue of c. EUR 8-9Mn in 2019), which saw its activity decline by 20%-25% in 2020e, due to a significant reduction in the number of events (sporting, musical, cultural, etc.) for which VTSG provides outside broadcasting services.

In conclusion, although a decline in proforma terms in 2020e is inevitable (-c. 25% vs 2019), VTSG's businesses are ready to reap the fruits of cyclical recovery. This should not only enable VTSG to recover 2019 revenue levels (proforma), but also exceed these by c. 30% in 2021e. The reasons for this significant growth vs 2019 are both strategic (media and content businesses) and have to do with the change in the scope of consolidation (the acquisition of the satellite services business was only consolidated for two months in the proforma 2019).

The reasons mentioned above can be summed up as:

- **The focus of the advertising business on digital clients** at the growth stage. A business that accounts for c. 30% of expected growth vs proforma 2019.

- **The credible capacity for recovery of the content business,** essentially due to the "take-off" of revenue generated by distribution via platforms and with the licencing of the catalogue (a business little exploited in 2019). This would explain c. 35% of growth vs 2019.

- **The consolidation (and recovery) of the TMT services business** to levels of 2019 (a year in which satellite services business was only consolidated for two months). The recovery of turnover levels of EUR 9.5Mn in satellite services would account for c. 35% of growth vs proforma 2019.

Chart 23. Contribution to gross margin contribution by business line (2019-2022e)

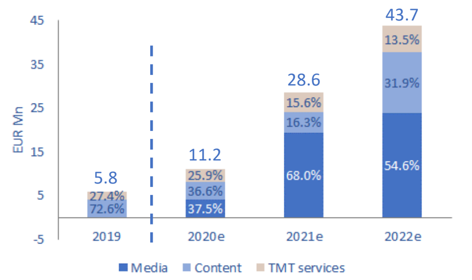


Chart 24. Gross margin (2019-2022e)

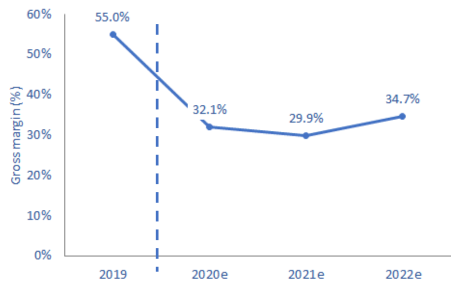


Chart 25. From Revenues to 2021e EBITDA

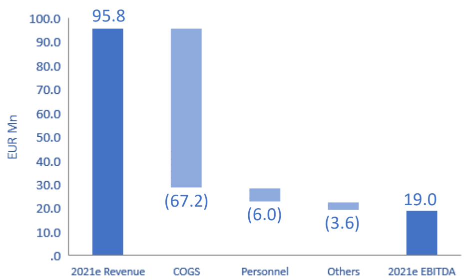


Chart 26. Recurrent EBITDA (2019-2022e)

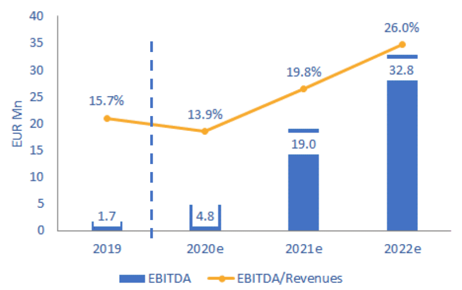
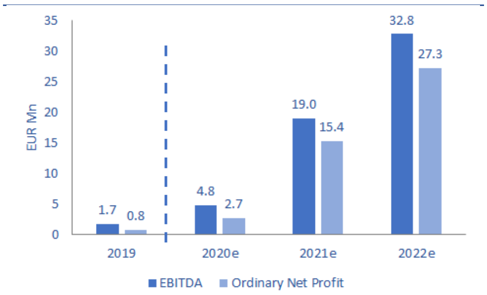


Chart 27. EBITDA vs Ordinary net profit (2019-2022e)



A business that will become dominated by advertising (not only in terms of revenue but also margins; c. 70% of 2021e gross margin)

The significant transformation of VTSG in 2020e will not only affect the revenue mix, but will also cause a radical change in margins (chart 23), that should take the 2020e gross margin to c. EUR 11Mn (vs EUR 6Mn in 2019). Growth that is mainly explained by the consolidation in 2020e (August-December) of Squirrel's media business, that should contribute c. EUR 4Mn at the gross margin level (2020e gross margin for the media business: 20.1% of revenue).

For 2021e we estimate that the step-up in revenue will translate to a gross margin of EUR 28.6Mn (consolidated gross margin of c. 30%) dominated essentially by the media/advertising business (c. 70% of the total gross margin). The main levers responsible for growth in the gross margin to EUR 28.6Mn in 2021e (vs EUR 11Mn in 2020e) are:

- **The perimeter effect,** due to the incorporation in consolidated figures of 12 months of the media business' revenue (vs 5 months in 2020e). This explains c. 49% of the increase in the gross margin estimated for 2021e.

- **The improvement in the gross margin (in percentage terms) of the media business,** to 28% in 2021e (vs 20% in 2020e; +8p.p.). The estimated increase in terms of margins is the result of the recovery of the activity levels of the advertising business in 2021e. This should take the business' margin close to average sector levels (c. 30% in 2021e, according to Refinitiv data) and explains c. 27% of the increase in the consolidated gross margin of our 2021e estimates.

Which should translate into an EBITDA margin of c. 20% in 2021e due simply to the business' operating leverage (2021e EV/EBITDA: 18x)

In our view, the company could generate significant economies of scale as a result of a business that has an undemanding cost structure. Now there is only one question: what structural costs will the "new VTSG" need?

On the one hand, the media business generated 2019 proforma revenue (ex – interco) of c. EUR 62.5Mn for which it required personnel costs of c. EUR 2.5Mn and overheads of c. EUR 1.5Mn (a combined c. 6.5% of total revenue) while on the other, VTSG's content business had total structural costs of c. EUR 4Mn in 2015-2019 (while its revenues increased from c. EUR 3Mn in 2015 to c. EUR 11Mn in 2019).

Our 2021e estimates envisage an increase in structural costs to EUR 9.6Mn (c. 10% of 2021e revenue), resulting from personnel costs of c. EUR 6Mn (+30% vs EUR 4.6Mn in proforma 2019) and other operating costs of c. EUR 3.6Mn (vs EUR 3.5Mn in proforma 2019). The estimated step-up in size in 2021e, together with the undemanding cost structure (c. 10% of 2021e revenue) should drive 2021e Rec. EBITDA to c. EUR 19Mn (EBITDA margin c. 20%).

But the risk has not disappeared. If gross margin levels of the media business were to remain similar to those expected in 2020e (c. 20% vs our estimate of c. 27% in 2021e) with a slower than expected recovery of the content business (with turnover reaching c. EUR 10Mn vs our estimate of EUR 15Mn) this would have a very negative impact on our estimates (2021e EBITDA c. -50% vs our initial estimate).

Causing ordinary net profit to "take off" in 2021e (EUR 15.4Mn; P/E 22x)

In the case of VTSG, there are no large surprises below the EBITDA line. With no significant impact of financial expenses or associates, the amortisation of audiovisual content (EUR 1.9Mn in 2021e and c. EUR 2.5Mn in 2022e) is the main item between EBITDA and PBT.

Moreover, VTSG has a very high volume of unused tax credits (c. EUR 84.9Mn off the balance sheet at the 2019 close), that should allow it to keep the tax rate very low in coming years (we estimate a tax rate of c. 10% in 2021e and 2022e).

In this context, expected growth in Rec. EBITDA in 2021e to EUR 19Mn should translate to a similar amount in terms of ordinary net profit (EUR 15.4Mn; chart 27).

This explains why, in our view, VTSG's equity story hinges almost exclusively on the company's ability to profit from the competitive position of the businesses merged in 2020. In other words, significantly grow both revenue and margins. Growth that, as in all M&A activity, depends on the success of the operating execution of the media business under the auspices of VTSG. This means that uncertainty regarding numbers for the next two years is still high.

Finally, our 2021e estimates do not take into account a possible positive impact of the lawsuit filed by VTSG against the Giglio Group (c. EUR 14Mn) for differences between the accounting figures of the integrated assets in October 2019 and the reality of these (a favourable ruling could imply extraordinary revenue).

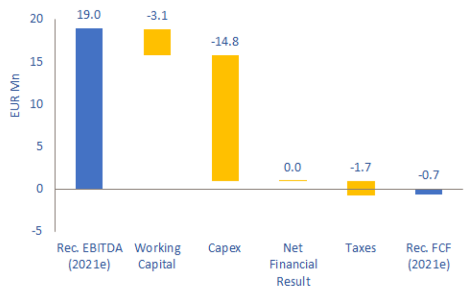
Maintaining a high volume of unused tax loss carryforwards (2019: EUR 85Mn)

The prolonged losses recorded by VTSG in the past has resulted in a very high level of tax loss carryforwards (EUR 84.9Mn at December 2019.) Because at present these do not have a maximum period during which they have to be offset, the first impact of this situation is a low tax rate in the mid term.

However, from the valuation point of view, there is a second impact and that is the theoretical value of the tax losses. In other words, the value of the tax savings that would result for VTSG if they were fully offset.

Free Cash Flow: the investment on new titles for the content business will slow cash generation. At least until 2022e

Chart 28. From EBITDA to FCF Rec. 2021e



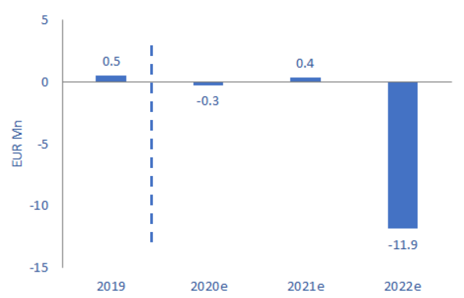
We estimate 2021e Rec. FCF at breakeven (EUR -0.7Mn; chart 28) essentially as a result of the significant investment to be made by the company in order to increase both its content catalogue and the number of films available for release in cinemas (which will be crucial for the future growth of its audiovisual content business).

We estimate CAPEX of c. EUR 15Mn in 2021e, a figure in line with our estimate for revenue of the content business (which gives some idea of the size of the investment to be made). An amount that, in our view, would have been very difficult to take on if it were not for the step-up in size provided by the integration of Squirrel's media business.

What about 2022e? Although we maintain our assumption that the company will continue the investment effort (2022e CAPEX: c. EUR 15Mn), the estimated significant growth in the business should enable VTSG to generate Rec. FCF of c. EUR 12Mn (c. 40% of 2022e Rec. EBITDA; 2022e FCF yield of c. 3.7%).

A comfortable financial position from which to accelerate growth (organic and inorganic)

Chart 29. Net Debt (2019 – 2022e)



One of VTSG's main weaknesses during its restructuring (2016-2019) was a lack of the financial clout required to carry out significant investment in its content business (very intensive in capital to maintain and renew the catalogue), which in turn prevented the recovery of cash flow and the generation of value.

Now things are very different. VTSG had a net cash position of c. EUR 0.5Mn in September 2020 (that we expect to be in line at the 2020e close; chart 29). Taking into account VTSG's healthy financial situation (free of debt), together with the business' ability to generate cash (although this will have to wait until at least 2022) and access to new funding, we do not rule out potential corporate movements in strategic segments, with the aim of accelerating business growth.

Despite the company's healthy financial position, we do not expect any dividend payments in the mid term, as we expect VTSG to reinvest the company's cash generation in financing the growth of its business (both organic and through M&A opportunities).

In conclusion: the integration of the media business "resolves" growth in the content business and opens up an opportunity to outperform the sector as soon as 2021.

In our opinion, the integration of the media business in July 2020 not only represents a significant step-up in size for the company (2021e revenues: c. EUR 95Mn), but also resolves the "Catch 22" of its content business.

Joseph Heller defined a "Catch 22" as a negative situation that the very rules of the game make it impossible to escape from: a paradox that leads to a dead end. In our view, this was the situation in which VTSG found itself in 2019 with: (i) a traditional business (Content) with little critical mass (2019 revenue: EUR 11Mn), (ii) highly intensive as regards capital ("crucial" for maintaining and renewing its catalogue) and (iii) limited financing capacity that prevented it from accessing the capital necessary to make new investments with which to drive growth. In our view this was the "Catch 22" that prevented the company from accelerating its growth.

Now (January 2021) things are very different. The integration of the media business in 2020 should provide the critical mass (and the capacity for cash generation) necessary to "feed" the content business (and maintaining a Net Cash position: c. EUR 0,3Mn in 2020e) enabling VTSG to resolve its "Catch 22" and open up a new horizon of opportunities that will imply growth (c. 30% on proforma 2019 levels).

In other words, today's VTSG is a totally different beast to the one seen in 2019. A "rara avis" in the media sector, positioning itself as a company with sufficient micro reasons to expect high growth rates in the medium term albeit hyper-dependent, as in all such cases, on the success of the operating execution of the integration: something that the business performance over 2021e will provide clues about.

2021 is a crucial year when it comes to assessing the strength and credibility of the high growth expected for the "new VTSG" (+30% vs proforma 2019 in revenue) and whether the singular nature of the business model will allow it to significantly outperform the sector. Given the low market visibility, 2022 seems a long way off. That will be the crucial year: it will be the proof that VTSG is a high growth story in a sector in which this is almost non-existent. In some ways, and after the integration with Squirrel, 2021 can be seen as a great opportunity but also as a "stress test" for VTSG's business model.

Valuation inputs

Inputs for the DCF Valuation Approach

	2020e	2021e	2022e	Terminal Value (1)		
Free Cash Flow "To the Firm"	**0.9**	**(0.6)**	**12.2**	**n.a.**		
Market Cap	**331.2**	At the date of this report				
Net financial debt	**-0.5**	Debt net of Cash (9m Results 2020)				
					Best Case	Worst Case
Cost of Debt	1.5%	Net debt cost			1.3%	1.8%
Tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	**1.2%**	**Kd = Cost of Net Debt * (1-T)**			**1.0%**	**1.4%**
Risk free rate (rf)	0.1%	Rf (10y Spanish bond yield)			=	=
Equity risk premium	9.0%	R (own estimate)			8.5%	9.5%
Beta (B)	1.2	B (Refinitiv and Lighthouse)			1.1	1.3
Cost of Equity	**10.9%**	**Ke = Rf + (R * B)**			**9.4%**	**12.4%**
Equity / (Equity + Net Debt)	100.0%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	0.0%	D			=	=
WACC	**10.9%**	**WACC = Kd * D + Ke * E**			**9.4%**	**12.4%**
G "Fair"	**2.5%**				**3.0%**	**2.0%**

(1) The terminal value calculated beyond the last FCF estimate does not reflect the company's growth potential (positive/negative) at the date of publication of this report.
(2) VTSG maintain a high volume of unused tax loss carryforwards (2019: EUR 85Mn)

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 21e	EPS 21e-22e	EV/EBITDA 21e	EBITDA 21e-22e	EV/Sales 21e	Revenues 21e-22e	EBITDA/Sales 21e	FCF Yield 21e	FCF 21e-22e
Omnicom	OMC	11,437.6	11.7	8.2%	8.0	4.3%	1.2	2.5%	15.6%	10.7%	4.1%
WPP	WPP.L	10,863.6	10.9	15.4%	8.4	7.9%	1.4	4.1%	16.4%	7.7%	9.0%
Publicis	PUBP.PA	10,518.0	9.7	6.4%	7.2	4.8%	1.5	3.0%	21.5%	11.6%	2.4%
Interpublic	IPG	7,922.3	13.2	9.9%	8.6	6.0%	1.4	3.2%	16.5%	9.1%	4.8%
Advertising global players			**11.4**	**10.0%**	**8.1**	**5.8%**	**1.4**	**3.2%**	**17.5%**	**9.8%**	**5.0%**
Mediaset	TL5.MC	1,370.5	8.2	4.4%	6.3	3.5%	1.6	0.3%	25.7%	11.9%	1.9%
Atresmedia	A3M.MC	724.3	8.2	5.4%	6.5	3.6%	1.0	1.2%	14.9%	10.5%	9.4%
Prisa	PRS.MC	748.9	52.9	-150.0%	15.0	24.1%	2.3	5.4%	15.3%	23.3%	-41.6%
Vocento	VOC.MC	134.8	29.5	81.8%	7.4	15.2%	0.8	2.3%	10.2%	11.1%	12.9%
Media sector in Spain[3]			**24.7**	**n.a.**	**8.8**	**11.6%**	**1.4**	**2.3%**	**16.5%**	**14.2%**	**-4.4%**
VTSG[4]	**VTSG.MC**	**331.2**	**21.7**	**78.2%**	**17.7**	**72.9%**	**3.5**	**31.6%**	**19.8%**	**n.a.**	**n.a.**

Note 3: Main players in the Media sector in Spain (despite not being in the same business as VTSG).

Free Cash Flow sensitivity analysis (2021e)

A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 21e	EBITDA 21e	EV/EBITDA 21e
Max	**21.8%**	**20.9**	**16.1x**
Central	**19.8%**	**19.0**	**17.7x**
Min	**17.8%**	**17.1**	**19.7x**

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

Rec. FCF EUR Mn	CAPEX/Sales 21e		
EBITDA 21e	13.9%	15.4%	16.9%
20.9	**2.7**	**1.3**	**(0.2)**
19.0	**0.8**	**(0.7)**	**(2.1)**
17.1	**(1.1)**	**(2.6)**	**(4.0)**

Scenario	Rec. FCF/Yield 21e		
Max	**0.8%**	**0.4%**	**n.a.**
Central	**0.2%**	**n.a.**	**n.a.**
Min	**n.a.**	**n.a.**	**n.a.**

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **Exposure to the cycle.** Close to 70% of VTSG's 2021e revenues depend on advertising: a cyclical sector, with low structural growth (mature) and highly competitive. From the client point of view over 90% of VTSG's business model revolves around the e-commerce sector. Any slowdown in activity impacting those sectors (within e-commerce) that spend the most on advertising (automotive, retail and hospitality, tourism, finance, etc.) would have a significant impact on the company's revenue volumes.

2. **Dependence on the success of content.** Revenue from the production and distribution of content depends largely on the number of new releases and other unpredictable variables (such as changes in consumer tastes). Any variation in either the number of new releases or the expected success of these would impact our revenue estimates (the content area represents c. 16% of 2021e revenue).

3. **Impact of Covid-19 on cinema distribution.** The Covid-19 pandemic has temporarily affected the distribution of films in cinemas. Our estimates assume the normalisation of cinema attendance from 2021. Further restrictions (lockdown) or changes in consumer habits (due to risk perception) would have a negative impact on our projections for the content division.

4. **Exposure to emerging markets (Latam).** Although VTSG is not exposed to emerging market forex risk (all transactions are in euros or dollars; and exchange rate fluctuations are assumed by clients), growth in Latam (Brasil, Mexico and Colombia as the main countries) is one of the pillars of expected growth for the company in 2021e-2023e. This in itself implies dependence on the region's macro and growth. We estimate a weighting of revenue of Latam of c. 11% in 2021e.

5. **Commercial risk.** One of the main characteristics of the advertising sector is a trend towards concentration which in the last 20 years has given rise to a market dominated by five large international groups. This is compatible with the continued existence of niche business models (such as VTSG's). In the long term the profitability and growth (with an increase in size) of this kind of businesses could increase their risk of competition from large sector players with pressure on volumes (clients and share), prices and margins. A reduction of 5p.p. in the 2021e gross margin obtained by the media business would cause a decrease of 23% in 2021e EBITDA.

6. **Increase in CAPEX requirements.** The production and distribution of audiovisual content (c. 16% of 2021e) is a business whose growth is highly dependent on the level of investment and, so, is very capital-intensive (we estimate capex of c. EUR 15Mn in 2021e and 2022e; which by itself represents virtually all VTSG's CAPEX in both years).

7. **Lack of M&A discipline.** Both the economic situation (which has significantly reduced sector profitability), and the specific dynamics of the media sector, will open up opportunities for non-organic growth in the short, medium and long terms. VTSG has a healthy balance sheet (net cash position in 2020 that will continue, according to our estimates, at the 2021 close) and is likely to seek to grow via M&A which in itself implies a risk. Interest in small players with growth potential may result in increased competition in acquisition processes with a risk of value destruction.

The principal shareholder is, essentially, the owner

Table 3. Board of Directors (january 2021)

Name	Category	Date	% Capital
Squirrel Capital	Executive	jul-16	94.3%
Julian Martínez Samaniego	Propietary	jul-16	0.0%
María José Pereiro	Propietary	oct-20	0.0%
Paula Eliz Santos	Independent	dec-16	0.0%
Uriel González-Montes	Independent	dec-16	0.0%
Javier Calvo Salve	Independent	oct-19	0.0%
Teófilo Jiménez	Independent	oct-20	0.0%
Total			**94.3%**

The changes experienced by VTSG in recent years have not just affected the company's business model and revenue mix. In 2016, Squirrel Capital (owned by Pablo Pereiro Lage) acquired the controlling interest held by Ezentis in VTSG (25%), becoming the principal shareholder, which led to the total renewal of the board of directors and the management team.

A new board of directors (2020) with a majority of independent members. There are seven directors on the board; an executive director (Pablo Pereiro, representing Squirrel Capital), two proprietary directors (appointed by Squirrel Capital) and four independents, who therefore have a majority. There are no executive directors apart from Pablo Pereiro (Chairman of the board and CEO of the company).

According to the company's bylaws, the position of director is held for a maximum term of four years, renewable for periods of equal duration (in accordance with prevailing legislation), without the bylaws stipulating a limit to the number of terms a director can serve or the procedure for the renewal of this body (maximum percentage of members to be renewed simultaneously and/or time limits).

And a management team that is very closely tied to the share price. Squirrel Capital (Pablo Pereiro; Chairman of the board and CEO of the company) directly controls c. 94% of capital (Table 1) which means the interests of management are fully aligned with those of minority shareholders. At the date of this report there are no institutional investors with a significant shareholding.

Integration with Squirrel Capital. The capital increases of recent years (Table 2) culminated with the non-monetary contribution of the assets of Squirrel Capital (July 2020) valued at EUR 220.5Mn (at the lower end of the range included in the last valuation report issued by PwC in May 2020; -9% vs the initial pre- Covid valuation). This represents a significant increase in the size of Squirrel Capital's stake in the company (to c. 94.1%). The transaction was approved by shareholders at a meeting held in July 2020 (with a majority percentage of favourable votes among "ex Squirrel Capital" shareholders too).

The 2020e financial projections included in this report (see Annexe 1) are not proforma but rather reflect the integration of the assets of Squirrel Capital since July 2020. Data for 2019 are not proforma either.

Table 4. Capital increases (2017 - 2020)

	Date	Total Shares (Mn)	Nominal value (EUR/acc.)	Share Capital (EUR Mn)	Share Premium (EUR Mn)
Balance as of 12/31/2017		**338**	**0.001**	**0.3**	**0.0**
Monetary capital increase	02/16/2018	3,305	0.001	3.3	0.0
Shareholder loan (Squirrel)	02/16/2018	2,341	0.001	2.3	0.0
Balance as of 12/31/2018		**5,984**	**0.001**	**5.98**	**0.0**
Monetary capital increase	07/03/2019	11,969	0.001	12.0	0.0
Non-monetary capital increase (Giglio Group)	11/04/2019	1,136	0.001	1.1	11.4
Balance as of 12/31/2019		**19,089**	**0.001**	**19.1**	**11.4**
Non-monetary capital increase (Squirrel)	07/30/2020	66,818	0.001	66.8	153.7
Contra-split (1 new share for every 1,000 old)	12/04/2020	n.a.	n.a.	n.a.	n.a.
At the day of this repoty		**85.9**	**1.0**	**85.9**	**165.0**

Remuneration of the executive director (Chairman and CEO). The remuneration of the only executive director (Pablo Pereiro) is comprised of: (i) a fixed remuneration of EUR 600k/year (c. 10% of 2021e personnel costs) and (ii) a variable remuneration linked to meeting the budget (maximum of 75% of the fixed remuneration) and the strategic targets (maximum of 25% of the fixed remuneration).

Non executive directors receive no remuneration other than a per diem to compensate them for attendance at meetings (c. EUR 2k for members of the board and c. EUR 1k for the audit and appointments committees). Directors do not receive any other form of remuneration.

Appendix 1. Financial Projections[1]

Balance Sheet (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Intangible assets	3.8	4.3	7.6	10.3	27.1	27.1	27.1	27.1
Fixed assets	0.6	0.5	0.4	0.4	1.6	3.5	16.5	29.1
Other Non Current Assets	0.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Financial Investments	-	-	-	-	-	-	-	-
Goodwill & Other Intangilbles	0.5	0.5	0.5	0.5	10.4	10.4	10.4	10.4
Current assets	3.0	2.7	1.4	3.3	13.1	13.6	27.9	33.9
Total assets	**8.2**	**8.4**	**10.0**	**14.5**	**52.3**	**54.7**	**81.9**	**100.5**
Equity	(23.9)	(25.2)	1.7	8.2	40.4	43.0	58.2	85.4
Minority Interests	(0.7)	(0.7)	(0.6)	(0.6)	(0.3)	(0.3)	(0.3)	(0.3)
Provisions & Other L/T Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	-	-	-	-	-	-	-	-
Net financial debt	19.6	21.4	5.2	3.8	0.5	(0.3)	0.4	(11.9)
Current Liabilities	13.1	12.9	3.8	3.0	11.7	12.4	23.6	27.3
Equity & Total Liabilities	**8.2**	**8.4**	**10.0**	**14.5**	**52.3**	**54.7**	**81.9**	**100.5**

P&L (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 15-19	CAGR 19-22e
Total Revenues	**3.0**	**4.0**	**3.9**	**6.4**	**10.8**	**34.8**	**95.8**	**126.0**	*37.5%*	*n.a.*
Total Revenues growth	*-50.2%*	*33.3%*	*-3.5%*	*66.2%*	*67.3%*	*223.7%*	*174.8%*	*31.6%*		
COGS	(0.7)	(1.2)	(0.5)	(1.9)	(4.8)	(23.7)	(67.2)	(82.3)		
Gross Margin	**2.3**	**2.9**	**3.3**	**4.6**	**5.9**	**11.2**	**28.6**	**43.7**	*26.5%*	*94.8%*
Gross Margin/Revenues	*76.7%*	*71.0%*	*85.8%*	*71.0%*	*55.0%*	*32.1%*	*29.9%*	*34.7%*		
Personnel Expenses	(2.5)	(2.1)	(1.8)	(1.9)	(2.2)	(3.6)	(6.0)	(6.8)		
Other Operating Expenses	(1.6)	(1.1)	(0.9)	(0.2)	(2.0)	(2.7)	(3.6)	(4.1)		
Recurrent EBITDA	**(1.8)**	**(0.3)**	**0.6**	**2.5**	**1.7**	**4.8**	**19.0**	**32.8**	*31.2%*	*n.a.*
Recurrent EBITDA growth	*n.a.*	*82.8%*	*307.3%*	*292.9%*	*-30.9%*	*185.2%*	*292.6%*	*72.9%*		
Rec. EBITDA/Revenues	*n.a.*	*n.a.*	*16.1%*	*38.1%*	*15.7%*	*13.9%*	*19.8%*	*26.0%*		
Restructuring Expense & Other non-rec.	-	-	-	-	-	-	-	-		
EBITDA	**(1.8)**	**(0.3)**	**0.6**	**2.5**	**1.7**	**4.8**	**19.0**	**32.8**	*31.2%*	*n.a.*
Depreciation & Provisions	(0.8)	(0.3)	1.6	(0.4)	(0.8)	(1.2)	(1.9)	(2.5)		
Capitalized Expense	-	-	-	-	-	-	-	-		
Rentals (IFRS 16 impact)	-	-	-	-	(0.0)	(0.1)	(0.1)	(0.1)		
EBIT	**(2.5)**	**(0.6)**	**2.2**	**2.1**	**0.9**	**3.5**	**17.0**	**30.2**	*23.7%*	*n.a.*
EBIT growth	*78.1%*	*77.8%*	*490.1%*	*-5.9%*	*-57.6%*	*301.1%*	*384.2%*	*77.5%*		
EBIT/Revenues	*n.a.*	*n.a.*	*56.7%*	*32.1%*	*8.1%*	*10.1%*	*17.8%*	*24.0%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(1.4)	(0.6)	(0.3)	(0.0)	(0.1)	(0.1)	(0.0)	0.0		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**(4.0)**	**(1.2)**	**1.9**	**2.0**	**0.8**	**3.5**	**17.0**	**30.2**	*21.9%*	*n.a.*
Ordinary Profit Growth	*67.3%*	*71.0%*	*262.2%*	*9.2%*	*-59.9%*	*322.8%*	*389.9%*	*78.2%*		
Extraordinary Results	-	-	26.1	-	7.9	-	-	-		
Profit Before Tax	**(4.0)**	**(1.2)**	**28.0**	**2.0**	**8.8**	**3.5**	**17.0**	**30.2**	*43.1%*	*51.1%*
Tax Expense	(0.1)	(0.0)	(0.0)	(0.2)	(0.3)	(0.9)	(1.7)	(3.0)		
Effective Tax Rate	*n.a.*	*n.a.*	*0.2%*	*8.2%*	*3.5%*	*25.0%*	*10.0%*	*10.0%*		
Minority Interests	(0.1)	(0.0)	(0.0)	(0.1)	0.0	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(4.1)**	**(1.2)**	**27.9**	**1.8**	**8.5**	**2.6**	**15.3**	**27.2**	*41.8%*	*47.7%*
Net Profit growth	*65.3%*	*70.6%*	*n.a.*	*-93.5%*	*368.8%*	*-69.3%*	*487.9%*	*78.2%*		
Ordinary Net Profit	**(4.1)**	**(1.2)**	**1.8**	**1.8**	**0.8**	**2.6**	**15.3**	**27.2**	*21.7%*	*n.a.*
Ordinary Net Profit growth	*65.5%*	*70.7%*	*252.3%*	*-0.9%*	*-56.1%*	*228.3%*	*487.9%*	*78.2%*		

Cash Flow (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 15-19	CAGR 19-22e
Recurrent EBITDA						**4.8**	**19.0**	**32.8**	*31.2%*	*n.a.*
Rentals (IFRS 16 impact)						(0.1)	(0.1)	(0.1)		
Working Capital Increase						0.2	(3.0)	(2.3)		
Recurrent Operating Cash Flow						**4.9**	**15.9**	**30.3**	*-45.1%*	*n.a.*
CAPEX						(3.2)	(14.8)	(15.1)		
Net Financial Result affecting the Cash Flow						(0.1)	(0.0)	0.0		
Tax Expense						(0.9)	(1.7)	(3.0)		
Recurrent Free Cash Flow						**0.8**	**(0.7)**	**12.2**	*-33.8%*	*62.4%*
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**0.8**	**(0.7)**	**12.2**	*-33.8%*	*62.4%*
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**(0.8)**	**0.7**	**(12.2)**		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.
Note 2: The change of consolidation perimeter that occurred in July 2020 will significantly distort any growth metric.

Appendix 2. Free Cash Flow(1)

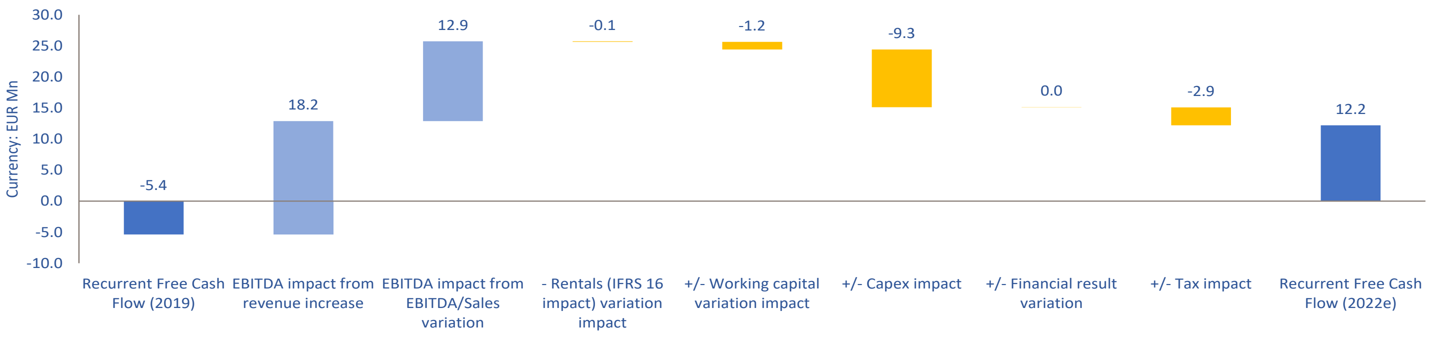
A) Cash Flow Analysis (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 16-19	CAGR 19-22e
Recurrent EBITDA	**(0.3)**	**0.6**	**2.5**	**1.7**	**4.8**	**19.0**	**32.8**	*96.8%*	*n.a.*
Recurrent EBITDA growth	*82.8%*	*307.3%*	*292.9%*	*-30.9%*	*185.2%*	*292.6%*	*72.9%*		
Rec. EBITDA/Revenues	*n.a.*	*16.1%*	*38.1%*	*15.7%*	*13.9%*	*19.8%*	*26.0%*		
- Rentals (IFRS 16 impact)	-	-	-	-	(0.1)	(0.1)	(0.1)		
+/- Working Capital increase	(0.1)	(7.8)	(2.6)	(1.1)	0.2	(3.0)	(2.3)		
= Recurrent Operating Cash Flow	**(0.4)**	**(7.1)**	**(0.2)**	**0.6**	**4.9**	**15.9**	**30.3**	*53.4%*	*n.a.*
Rec. Operating Cash Flow growth	*-105.6%*	*n.a.*	*97.5%*	*422.3%*	*750.7%*	*223.2%*	*91.3%*		
Rec. Operating Cash Flow / Sales	*n.a.*	*n.a.*	*n.a.*	*5.4%*	*14.1%*	*16.6%*	*24.1%*		
- CAPEX	(0.7)	(1.7)	-	(5.8)	(3.2)	(14.8)	(15.1)		
- Net Financial Result affecting Cash Flow	(0.6)	(0.3)	(0.0)	0.1	(0.1)	(0.0)	0.0		
- Taxes	(0.0)	(0.0)	(0.2)	(0.1)	(0.9)	(1.7)	(3.0)		
= Recurrent Free Cash Flow	**(1.6)**	**(9.2)**	**(0.4)**	**(5.4)**	**0.8**	**(0.7)**	**12.2**	*-48.6%*	*62.4%*
Rec. Free Cash Flow growth	*-136.7%*	*-462.1%*	*96.0%*	*n.a.*	*115.3%*	*-180.9%*	*n.a.*		
Rec. Free Cash Flow / Revenues	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*2.4%*	*n.a.*	*9.7%*		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	-	-	-	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**(1.6)**	**(9.2)**	**(0.4)**	**(5.4)**	**0.8**	**(0.7)**	**12.2**	*-48.6%*	*62.4%*
Free Cash Flow growth	*-136.7%*	*-462.1%*	*96.0%*	*n.a.*	*115.3%*	*-180.9%*	*n.a.*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0.2%*	*n.a.*	*3.7%*		
Free Cash Flow Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0.2%*	*n.a.*	*3.7%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2016	2017	2018	2019	2020e	2021e	2022e
Recurrent FCF(FY - 1)	**4.4**	**(1.6)**	**(9.2)**	**(0.4)**	**(5.4)**	**0.8**	**(0.7)**
EBITDA impact from revenue increase	(0.6)	0.0	0.4	1.6	3.8	8.4	6.0
EBITDA impact from EBITDA/Sales variation	2.0	0.9	1.4	(2.4)	(0.7)	5.7	7.8
= Recurrent EBITDA variation	**1.5**	**0.9**	**1.8**	**(0.8)**	**3.1**	**14.1**	**13.8**
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	(0.1)	-	-
+/- Working capital variation impact	(8.2)	(7.7)	5.1	1.5	1.3	(3.2)	0.7
= Recurrent Operating Cash Flow variation	**(6.7)**	**(6.8)**	**7.0**	**0.8**	**4.3**	**11.0**	**14.5**
+/- CAPEX impact	(0.3)	(1.0)	1.7	(5.8)	2.7	(11.6)	(0.3)
+/- Financial result variation	0.9	0.3	0.3	0.1	(0.1)	0.0	0.1
+/- Tax impact	0.0	(0.0)	(0.1)	0.0	(0.7)	(0.8)	(1.3)
= Recurrent Free Cash Flow variation	**(6.1)**	**(7.5)**	**8.8**	**(5.0)**	**6.2**	**(1.5)**	**12.9**
Recurrent Free Cash Flow	**(1.6)**	**(9.2)**	**(0.4)**	**(5.4)**	**0.8**	**(0.7)**	**12.2**

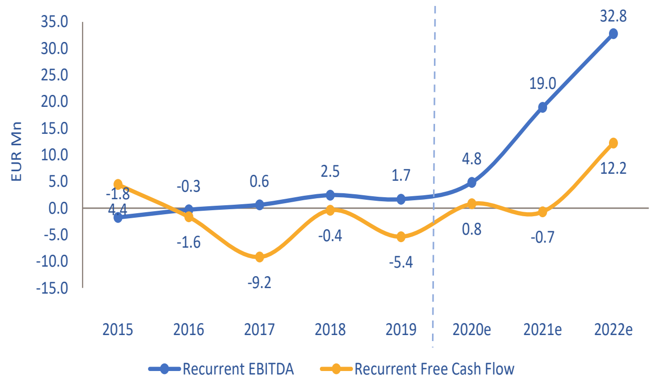
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 16-19	CAGR 19-22e
EBIT	**(0.6)**	**2.2**	**2.1**	**0.9**	**3.5**	**17.0**	**30.2**	*52.6%*	*n.a.*
** Theoretical Tax rate*	*0.0%*	*0.2%*	*8.2%*	*3.5%*	*25.0%*	*10.0%*	*10.0%*		
= Taxes (pre- Net Financial Result)	-	(0.0)	(0.2)	(0.0)	(0.9)	(1.7)	(3.0)		
Recurrent EBITDA	**(0.3)**	**0.6**	**2.5**	**1.7**	**4.8**	**19.0**	**32.8**	*96.8%*	*n.a.*
- Rentals (IFRS 16 impact)	-	-	-	-	(0.1)	(0.1)	(0.1)		
+/- Working Capital increase	(0.1)	(7.8)	(2.6)	(1.1)	0.2	(3.0)	(2.3)		
= Recurrent Operating Cash Flow	**(0.4)**	**(7.1)**	**(0.2)**	**0.6**	**4.9**	**15.9**	**30.3**	*53.4%*	*n.a.*
- CAPEX	(0.7)	(1.7)	-	(5.8)	(3.2)	(14.8)	(15.1)		
- Taxes (pre- Financial Result)	-	(0.0)	(0.2)	(0.0)	(0.9)	(1.7)	(3.0)		
= Recurrent Free Cash Flow (To the Firm)	**(1.0)**	**(8.8)**	**(0.3)**	**(5.3)**	**0.9**	**(0.6)**	**12.2**	*-73.4%*	*62.6%*
Rec. Free Cash Flow (To the Firm) growth	*-117.1%*	*-765.8%*	*96.0%*	*n.a.*	*116.2%*	*-172.1%*	*n.a.*		
Rec. Free Cash Flow (To the Firm) / Revenues	n.a.	n.a.	n.a.	n.a.	2.5%	n.a.	9.7%		
- Acquisitions / + Divestments	-	-	-	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**(1.0)**	**(8.8)**	**(0.3)**	**(5.3)**	**0.9**	**(0.6)**	**12.2**	*-73.4%*	*62.6%*
Free Cash Flow (To the Firm) growth	*-117.1%*	*-765.8%*	*96.0%*	*n.a.*	*116.2%*	*-172.1%*	*n.a.*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0.3%*	*n.a.*	*3.6%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0.3%*	*n.a.*	*3.6%*		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.
Note 2: The change of consolidation perimeter that occurred in July 2020 will significantly distort any growth metric.

Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward

Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	331.2	
+ Minority Interests	1.6	9m Results 2020
+ Provisions & Other L/T Liabilities	3.8	9m Results 2020
+ Net financial debt	(0.5)	9m Results 2020
- Financial Investments	0.6	9m Results 2020
+/- Others		
Enterprise Value (EV)	**335.5**	

Appendix 4. Historical performance(1)(2)

Historical performance (EUR Mn)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 09-19	CAGR 19-22e
Total Revenues	**102.6**	**104.5**	**135.2**	**23.7**	**8.6**	**6.0**	**3.0**	**4.0**	**3.9**	**6.4**	**10.8**	**34.8**	**95.8**	**126.0**	*-20.2%*	*n.a.*
Total Revenues growth	*-14.0%*	*1.9%*	*29.3%*	*-82.5%*	*-63.9%*	*-29.4%*	*-50.2%*	*33.3%*	*-3.5%*	*66.2%*	*67.3%*	*223.7%*	*174.8%*	*31.6%*		
EBITDA	**15.5**	**18.3**	**(12.4)**	**6.6**	**(2.0)**	**0.0**	**(1.8)**	**(0.3)**	**0.6**	**2.5**	**1.7**	**4.8**	**19.0**	**32.8**	*-19.9%*	*n.a.*
EBITDA growth	*-41.9%*	*17.8%*	*-168.0%*	*153.0%*	*-129.9%*	*100.9%*	*n.a.*	*82.8%*	*307.3%*	*292.9%*	*-30.9%*	*185.2%*	*292.6%*	*72.9%*		
EBITDA/Sales	*15.1%*	*17.5%*	*n.a.*	*27.8%*	*n.a.*	*0.3%*	*n.a.*	*n.a.*	*16.1%*	*38.1%*	*15.7%*	*13.9%*	*19.8%*	*26.0%*		
Net Profit	**(18.2)**	**0.9**	**(35.1)**	**(40.7)**	**(68.6)**	**(12.0)**	**(4.1)**	**(1.2)**	**27.9**	**1.8**	**8.5**	**2.6**	**15.3**	**27.2**	*9.4%*	*47.7%*
Net Profit growth	*n.a.*	*105.2%*	*n.a.*	*-15.9%*	*-68.7%*	*82.6%*	*65.3%*	*70.6%*	*n.a.*	*-93.5%*	*368.8%*	*-69.3%*	*487.9%*	*78.2%*		
Adjusted number shares (Mn)	6.7	6.7	7.6	7.6	7.9	7.9	7.9	7.9	7.8	15.1	18.9	47.4	85.9	85.9		
EPS (EUR)	-2.73	0.14	-4.61	-5.34	-8.72	-1.52	-0.53	-0.15	3.57	0.12	0.45	0.05	0.18	0.32	*8.0%*	*-10.9%*
EPS growth	*n.a.*	*n.a.*	*n.a.*	*-15.9%*	*-63.2%*	*82.6%*	*65.3%*	*70.6%*	*n.a.*	*-96.6%*	*n.a.*	*-87.8%*	*n.a.*	*78.2%*		
Ord. EPS (EUR)	-2.74	0.11	-4.59	-5.32	-7.75	-1.52	-0.52	-0.15	0.23	0.12	0.04	0.05	0.18	0.32	*7.3%*	*96.2%*
Ord. EPS growth	*n.a.*	*n.a.*	*n.a.*	*-16.0%*	*-45.6%*	*80.4%*	*65.9%*	*70.7%*	*n.a.*	*-48.6%*	*-65.0%*	*30.7%*	*n.a.*	*78.2%*		
CAPEX	(7.9)	(5.7)	(2.5)	(1.9)	-	(0.2)	(0.4)	(0.7)	(1.7)	-	(5.8)	(3.2)	(14.8)	(15.1)		
CAPEX/Sales %	*7.7%*	*5.4%*	*1.9%*	*7.8%*	*0.0%*	*4.1%*	*13.5%*	*16.4%*	*43.1%*	*0.0%*	*54.3%*	*9.1%*	*15.4%*	*12.0%*		
Free Cash Flow	**(12.8)**	**(5.0)**	**9.6**	**5.1**	**(1.5)**	**0.6**	**4.4**	**(1.6)**	**(9.2)**	**(0.4)**	**(5.4)**	**0.8**	**(0.7)**	**12.2**	**8.4%**	**62.4%**
ND/EBITDA (x)[3]	*3.1x*	*3.2x*	*n.a.*	*3.1x*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*8.4x*	*1.6x*	*0.3x*	*-0.1x*	0.0x	-0.4x		
P/E (x)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*25.9x*	*8.6x*	*70.3x*	21.7x	12.2x		
EV/Sales (x)	*0.99x*	*0.60x*	*0.34x*	*1.16x*	*4.50x*	*6.33x*	*11.23x*	*8.86x*	*5.03x*	*6.46x*	*5.19x*	*9.63x*	3.50x	2.66x		
EV/EBITDA (x)[3]	*6.5x*	*3.4x*	*n.a.*	*4.2x*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*31.2x*	*16.9x*	*33.0x*	*n.a.*	17.7x	10.2x		
Absolute performance	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*-46.3%*	*-26.1%*	*-40.7%*	*-48.3%*	*-4.3%*	*41.5%*	*23.7%*	*24.8%*				
Relative performance vs Ibex 35	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*-55.8%*	*-28.7%*	*-36.1%*	*-47.3%*	*-10.9%*	*66.4%*	*10.6%*	*47.7%*				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Refinitiv.
Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Main Peers (2021e)

		Advertising global players					Media sector in Spain[3]					
	EUR Mn	Omnicom	WPP	Publicis	Interpublic	Average	Mediaset	Atresmedia	Prisa	Vocento	Average	VTSG[4]
Market data	Ticker (Reuters)	OMC	WPP.L	PUBP.PA	IPG		TL5.MC	A3M.MC	PRS.MC	VOC.MC		VTSG.MC
	Country	USA	UK	France	USA		Spain	Spain	Spain	Spain		Spain
	Market cap	11,437.6	10,863.6	10,518.0	7,922.3		1,370.5	724.3	748.9	134.8		331.2
	Enterprise value (EV)	14,077.8	17,045.3	15,686.3	10,007.1		1,409.6	894.6	1,915.4	272.8		335.5
Basic financial information	Total Revenues	11,370.6	12,337.1	10,139.3	7,047.3		868.0	930.7	834.4	359.3		95.8
	Total Revenues growth	*5.4%*	*2.5%*	*2.6%*	*4.5%*	*3.7%*	*6.8%*	*8.8%*	*3.8%*	*4.6%*	*6.0%*	*174.8%*
	Grow (2021e - 2022e)	*2.5%*	*4.1%*	*3.0%*	*3.2%*	*3.2%*	*0.3%*	*1.2%*	*5.4%*	*2.3%*	*2.3%*	*31.6%*
	EBITDA	1,768.5	2,018.1	2,179.3	1,161.0		222.9	138.4	127.7	36.7		19.0
	EBITDA growth	*10.5%*	*15.6%*	*7.2%*	*17.3%*	*12.7%*	*4.3%*	*35.0%*	*24.8%*	*42.9%*	*26.7%*	*292.6%*
	Grow (2021e - 2022e)	*4.3%*	*7.9%*	*4.8%*	*6.0%*	*5.8%*	*3.5%*	*3.6%*	*24.1%*	*15.2%*	*11.6%*	*72.9%*
	EBITDA/Revenues	*15.6%*	*16.4%*	*21.5%*	*16.5%*	*17.5%*	*25.7%*	*14.9%*	*15.3%*	*10.2%*	*16.5%*	*19.8%*
	EBIT	1,594.1	1,599.4	1,484.1	951.0		205.0	120.7	54.6	18.3		17.0
	EBIT growth	*11.5%*	*15.0%*	*12.5%*	*13.8%*	*13.2%*	*7.8%*	*43.5%*	*111.0%*	*139.1%*	*75.3%*	*384.2%*
	Grow (2021e - 2022e)	*3.7%*	*9.0%*	*3.9%*	*6.1%*	*5.7%*	*2.4%*	*4.4%*	*53.6%*	*30.4%*	*22.7%*	*77.5%*
	EBIT/Revenues	*14.0%*	*13.0%*	*14.6%*	*13.5%*	*13.8%*	*23.6%*	*13.0%*	*6.5%*	*5.1%*	*12.1%*	*17.8%*
	Net Profit	974.6	996.9	1,052.8	601.3		164.1	89.2	(27.0)	7.5		15.3
	Net Profit growth	*14.9%*	*24.0%*	*12.4%*	*11.7%*	*15.7%*	*10.1%*	*46.6%*	*63.5%*	*229.3%*	*87.4%*	*487.9%*
	Grow (2021e - 2022e)	*5.9%*	*11.9%*	*7.3%*	*9.3%*	*8.6%*	*3.9%*	*5.2%*	*103.7%*	*56.7%*	*42.4%*	*78.2%*
	CAPEX/Sales %	*0.9%*	*4.0%*	*2.8%*	*2.2%*	*2.5%*	*13.9%*	*3.0%*	*6.2%*	*2.8%*	*6.5%*	*15.4%*
	Free Cash Flow	1,228.6	833.5	1,221.8	724.7		163.1	76.1	174.4	14.9		(0.7)
	Net financial debt	403.3	3,650.1	2,089.9	1,319.0		(152.5)	151.1	883.3	58.0		0.4
	ND/EBITDA (x)	0.2	1.8	1.0	1.1	1.0	(0.7)	1.1	6.9	1.6	2.2	0.0
	Pay-out	*51.1%*	*44.0%*	*43.4%*	*55.7%*	*48.6%*	*58.1%*	*67.5%*	*0.0%*	*27.4%*	*38.3%*	*0.0%*
Multiples and Ratios	P/E (x)	11.7	10.9	9.7	13.2	11.4	8.2	8.2	52.9	29.5	24.7	21.7
	P/BV (x)	4.2	1.3	1.2	3.1	2.5	1.4	1.6	n.a.	0.5	1.2	5.7
	EV/Revenues (x)	1.2	1.4	1.5	1.4	1.4	1.6	1.0	2.3	0.8	1.4	3.5
	EV/EBITDA (x)	8.0	8.4	7.2	8.6	8.1	6.3	6.5	15.0	7.4	8.8	17.7
	EV/EBIT (x)	8.8	10.7	10.6	10.5	10.1	6.9	7.4	35.1	14.9	16.1	19.7
	ROE	*34.5*	*12.6*	*12.9*	*24.2*	*21.1*	*15.1*	*18.9*	*n.a.*	*1.3*	*11.8*	*30.2*
	FCF Yield (%)	*10.7*	*7.7*	*11.6*	*9.1*	*9.8*	*11.9*	*10.5*	*23.3*	*11.1*	*14.2*	*n.a.*
	DPS	*2.27*	*0.35*	*1.95*	*0.87*	*1.36*	*0.29*	*0.27*	*0.00*	*0.02*	*0.14*	*0.00*
	Dvd Yield	*4.3%*	*0.0%*	*4.6%*	*4.3%*	*3.3%*	*6.9%*	*8.3%*	*0.0%*	*1.6%*	*4.2%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Refinitiv). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).
Note 3: Main players in the Media sector in Spain (despite not being in the same business as VTSG).
Note 4: The change of consolidation perimeter that occurred in July 2020 will significantly distort any growth metric in 2021e vs 2020e.

IMPORTANT LEGAL INFORMATION REGARDING THIS REPORT

LIGHTHOUSE

Lighthouse is a project of IEAF Servicios de Análisis S.L.U. Lighthouse is a research project funded by Bolsas y Mercados Españoles S.A. Lighthouse aims to improve the research coverage of the "orphan stocks" of the Spanish market: those which lack real and continuous research coverage. Lighthouse reports will not include valuation and target price. Lighthouse does not seek to provide investment advice to any natural or legal person. For this reason, Lighthouse will not provide a valuation, target price or investment recommendation for any of the securities analysed.

IEAF Servicios de Análisis S.L.U. is a Spanish company whose corporate purpose is:

1º) To provide information and financial analysis regarding securities issued by any class of legal person traded on official secondary markets, and specifically those securities which are not the object of the recurrent provision of information and analysis by financial analysts who participate in the markets.

2º) To publicise and update the aforementioned financial reports and analysis, in addition to the monitoring and following of the securities on which the information and analysis is provided.

3º) To prepare studies and projects aimed at proposing and implementing measures to improve the information and financial analysis of securities traded on official secondary markets.

IEAF Servicios de Análisis S.L.U. is a company whose sole shareholder is the Instituto Español de Analistas Financieros (IEAF), a professional, not for profit association.

DISCLAIMER

The Instituto Español de Analistas Financieros (IEAF) hereby certifies that the analyst of IEAF Servicios de Análisis S.L.U. whose name figures as the author of this report, expresses views that reflect their personal and independent opinion of the company analysed without these implying, either directly or indirectly, a personalised recommendation of the company analysed for purposes of providing investment advice. This report is based on the preparation of detailed financial projections from information available to the public and following traditional fundamental research methodology (i.e. it is not a technical or quantitative analysis report). For the analysis methodology used in the preparation of this report, please contact the analyst directly; contact details are included on the front page of this report.

The report includes basic information regarding the main parameters to be used by an investor when making their own valuation (whether by discounted cash flows or multiples). These parameters are the personal opinion or estimate of the analyst. The person receiving this report should use their own judgement when using these parameters and should consider them as another element in their decision-making process in respect of investment. These parameters do not represent a personalised investment recommendation.

Rules governing confidentiality and conflicts of interest

None of the following rules governing confidentiality and conflicts of interest (12) is applicable to this report:

1. This report is non-independent research as it has been commissioned by the company analysed (issuer).

2. In the last 12 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., has had Investment Banking mandates or has managed or co-managed a public offering of the securities of the issuer, or has received compensation from said issuer for Investment Banking services, that exclude brokerage services for prepaid fees.

3. In the next 6 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., expects to receive or intends to obtain compensation for Investment Banking services provided to this company that exclude brokerage services for prepaid fees.

4. The Investment Analyst or a member of the Research Department or a member of their household has a long position in the shares or derivatives of the corresponding issuer.

5. The Investment Analyst or a member of the Research Department or a member of their household has a short position in the shares or derivatives of the corresponding issuer.

6. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a long position of over 0.5% of the issuer's capital.

7. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a short position of over 0.5% of the issuer's capital.

8. At the end of the month immediately prior to the publication of this report, or of the previous month if the report is published in the ten days following the end of the month, the company analysed (the issuer) or any of its subsidiaries held 5% or more of any class of equity security of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U.

9. A senior director or officer of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., or a member of their department is a director, officer, advisor or member of the Board of Directors of the issuer and/or one of its subsidiaries.

10. The Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., acts as broker for the Issuer for the corresponding prepaid fees.

11. The contents of this report related to the financial analysis, financial projections, valuation, investment summary and opinion of the analyst have been reviewed by the issuer prior to its publication.

12. The issuer has made changes to the contents of this report prior to its distribution.

The Investment Analysts who have prepared this Investment Analysis are employees of IEAF Servicios de Análisis S.L.U. These analysts have received (or will receive) compensation according to the general earnings of IEAF Servicios de Análisis S.L.U. To obtain a copy of the Code of Conduct of IEAF Servicios de Análisis S.L.U. (in respect of the Management of Conflicts of Interest in the research department), please use the e-mail address secretaria@ieaf.es or consult the contents of this Code at www.ieaf.es.

IEAF Servicios de Análisis S.L.U. is compensated by Bolsas y Mercados Españoles, S.A. for the preparation of this report. This report should be considered as just another element in the taking of investment decisions.

A report issued by IEAF servicios de análisis S.L.U.

 This document has been prepared and distributed, according to the provisions of the MiFID II by IEAF Servicios de Análisis S.L.U. Its corporate activity is regulated by the CNMV (the Spanish Securities Exchange Commission). The information and opinions expressed in this document do not represent nor are they intended to represent an offer or a solicitation to buy or sell the securities (in other words, the securities mentioned in this report and related warrants, options, rights or interests). The information and opinions contained in this document are based upon information available to the public and have been obtained from sources believed to be reliable by IEAF Servicios de Análisis S.L.U., but no guarantee is given regarding their accuracy or completeness. All comments and estimates reflect solely the opinion of IEAF Servicios de Análisis S.L.U. and do not offer any implicit or explicit guarantee. All the opinions expressed are subject to change without prior warning. This document does not take into account the specific investment objectives, financial position, risk profile or other specific aspects of the person who receives this document, and accordingly they should exercise their own judgement in this respect. Neither the Instituto Español de Analistas Financieros nor its subsidiary, IEAF Servicios de Análisis S.L.U., assumes any responsibility for direct or indirect losses arising from the use of the published research, except in the event of negligent conduct by IEAF Servicios de Análisis S.L.U. The information contained in this report is approved for distribution to professional clients, eligible counterparties and professional advisers, but not for distribution to private individuals or retail clients. Its reproduction, distribution or publication for any purpose without the written authorisation of IEAF Servicios de Análisis S.L.U. is prohibited. The Instituto Español de Analistas Financieros (IEAF) and/or its subsidiary IEAF Servicios de Análisis S.L.U., their employees and directors, may hold a position (long or short) in an investment knowing that this issuer will be the object of analysis and that this analysis will be distributed to institutional investors. Any further information regarding the contents of this report will be provided upon request. IEAF Servicios de Análisis S.L.U. intends to publish (at least) one quarterly report or note updating the information on the company analysed.

United States. IEAF Servicios de Análisis S.L.U. is not registered in the United States and, consequently, is not subject to the regulations of that country governing the preparation of research and the independence of analysts. This report is distributed solely to major US institutional investors, in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), and interpretations of this made by the US Securities Exchange Commission.

Major US Institutional Investors. This report will be distributed to "major US institutional investors", as defined by Rule 15a-6 of the US Securities Exchange Commission and of the US Securities Exchange Act of 1934.

Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
29-Jan-2021	n.a.	3.86	n.a.	n.a.	Initiation of Coverage	David López Sánchez