

Leaf Group: Improving Fundamentals and Below-Peer Valuation

This article by MOI Global instructor John Lewis is excerpted from a letter of [Osmium Partners](#), based in Greenbrae, California.

Leaf Group Ltd.^[1], is an online digital media company composed of two service offerings: Content & Media (C&M) and Marketplaces. C&M publishes and distributes content, accumulating a library of articles, videos, and blogs across their properties such as eHow.com and Livestrong.com. They also operate two leading artist marketplaces, Society6 and Saatchi Art, which provides the global community of artist with an online commerce platform. Leaf Group's current market capitalization is approximately \$241 million. (LFGR is a holding across all funds.)

Leaf reported solid results:

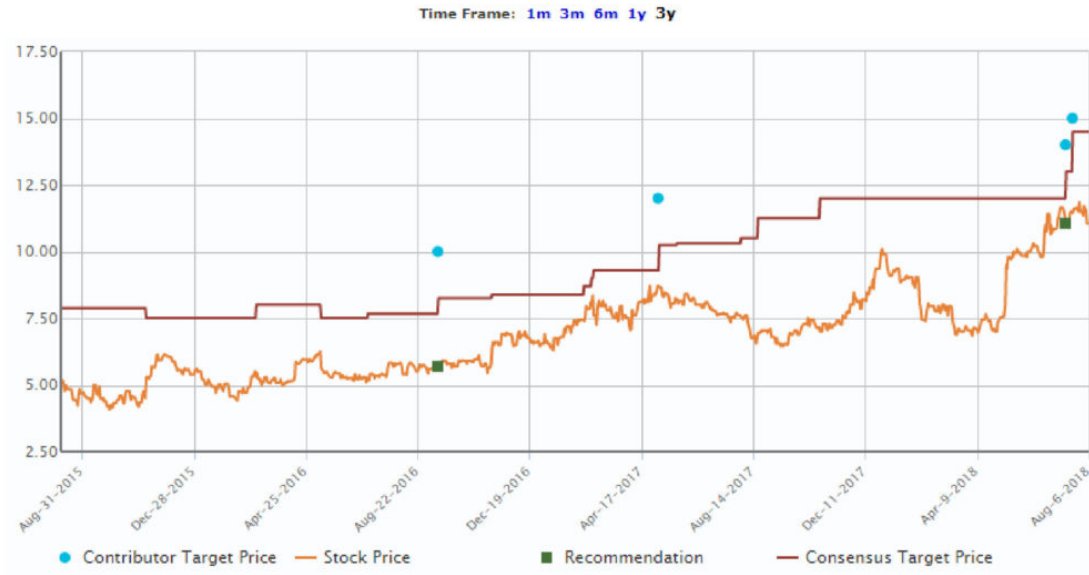
- +20% revenue growth
- +35% in Media (+25% organic growth, an acceleration from +12% organic growth in 1Q18)
- +11% in Marketplaces (focus on gross profit improvement which grew 24% yr/yr)
- +42% growth in Saatchi Art (launched: reseller services which should further accelerate revenue growth)
- \$32 million net cash or \$1.30 a share
- Adjusted EBITDA was -\$600K
- Guidance is for steady state EBITDA profitability starting 4Q18.
- Sum of the parts: \$16-18 per share.
- Society6 [launched at Target](#).

LEAF continues to build their platforms in both the Marketplace and Media segments. In the last 12 months, the Media segment contributed \$0.90 per share to the operating contribution margin before corp. expenses (a strategic acquirer typically pays 8-11x this multiple), and grew revenue by 25% organically and 35% including the recent acquisition of Well+Good.

Online media companies monetize their content through an ad stack monetized by clicks per 1000 impressions ("CPM"). The ad stack ranked from highest revenue per visit is as follows: Direct (>\$10 CPM), Programmatic (\$5 CPM), Open Auction (\$3 CPM), Google AdSense (<\$1 CPM). The Well+Good acquisition comes with a direct sales force and participates in direct portion of the ad stack where CPMs are north of \$10, we believe much higher for Well & Good. Total Media Revenue per visit ("RPV") jumped to \$19.00, up \$4 from \$15 a year ago. RPV without Well+Good was \$17.81. For the quarter, LEAF had 770 million page views and generated \$14.7 million dollars. Run rating for the year, a \$1 increase in RPV will add \$3+ million to the top line annually.

KKR bought WebMD for \$3bn in July 2017 (very slight revenue growth) and paid 13x EBITDA and 3.4x EV/Sales. Everyday Health (EVDY) was acquired for \$450 million or 21x EBITDA and 2.4x EV/Sales.

As shown below the 2 analysts that cover Leaf have moved their price targets up with accelerating revenue growth/scale from \$7.50 three years ago to \$14.50 today.



As shown below Craig-Hallum has a \$15 target. We see improving fundamentals and come to a sum of the parts valuation of \$17 which we believe is a 25-50% discount to peers.



FY19 Content & Media Revenue	56.2
Comp Multiple	2.9x
25% Haircut	2.2
Contribution	122.2
FY19 Marketplace Revenue	112.7
Comp Multiple	3.7x
50% Haircut	1.7x
Contribution	196.0
Enterprise Value	318.2
Net Cash	54.6
Equity Value	372.8
Shares Outstanding	24.8
Price Target	\$15.00

Sources: Company Reports, CHLM Estimates, FactSet

^[1] Market price as of the date of dissemination of the letter

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