

This article by John Lewis is excerpted from a letter of [Osmium Partners](#).

Leaf Group Ltd. (LFGR; \$7.00)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 \$165 million. (LFGR is a holding across all funds.)

Net cash per share is \$2.30

Leaf Marketplaces: Society6 we think is worth \$4-5 a share, Deny Designs is probably worth \$.50 a share and Saatchi Art we think is worth \$1-\$1.50 per share (Saatchi has 600,000 works or art on the platform worth \$2.5 billion and takes 35% of sales as a commission)

We conservatively value Media at \$5-6.50 a share, or approximately 6.6-8.2x 2017 segment operating contribution margin

NOL's \$10 per share

Guidance to be profitable by end of 2018 on steady state basis

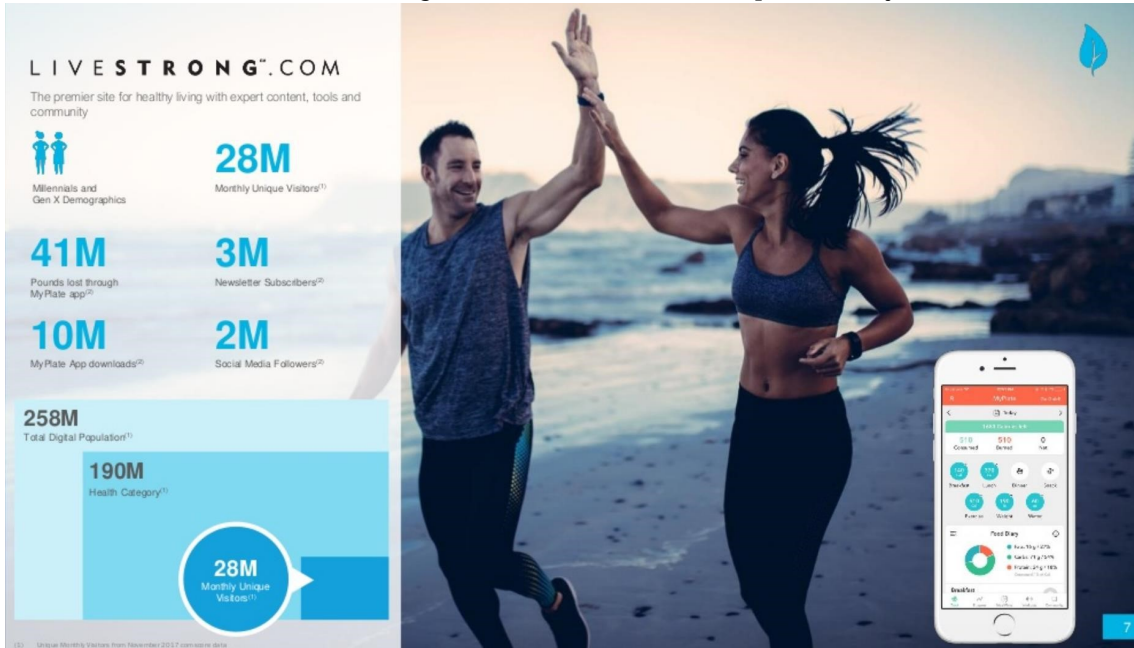
Marketplaces grew 24% in 4Q17 and organically mid-teens

LFGR Sell Side analyst forecasts revenue should approach \$145 million in 2018 (organic growth 14% top line growth) and has a \$12 price target which is about 70% over the current share price.

LFGR Media business generated \$18.2 million or .75 a share in segment contribution margin for 2017 (media segment contribution was up 75% over 2016).

Our most conservative DCF model get us to \$8.00 a share, while the only Sell Side analyst who covers LFGR rates the company a Buy and has \$12 target, and our Sum of the Parts we get \$13-15.80 (we have taken our Media valuation down slightly given industry dynamics). We think LFGR current valuation multiples will expand as the company gains further revenue scale as the business has significant incremental EBITDA margins.

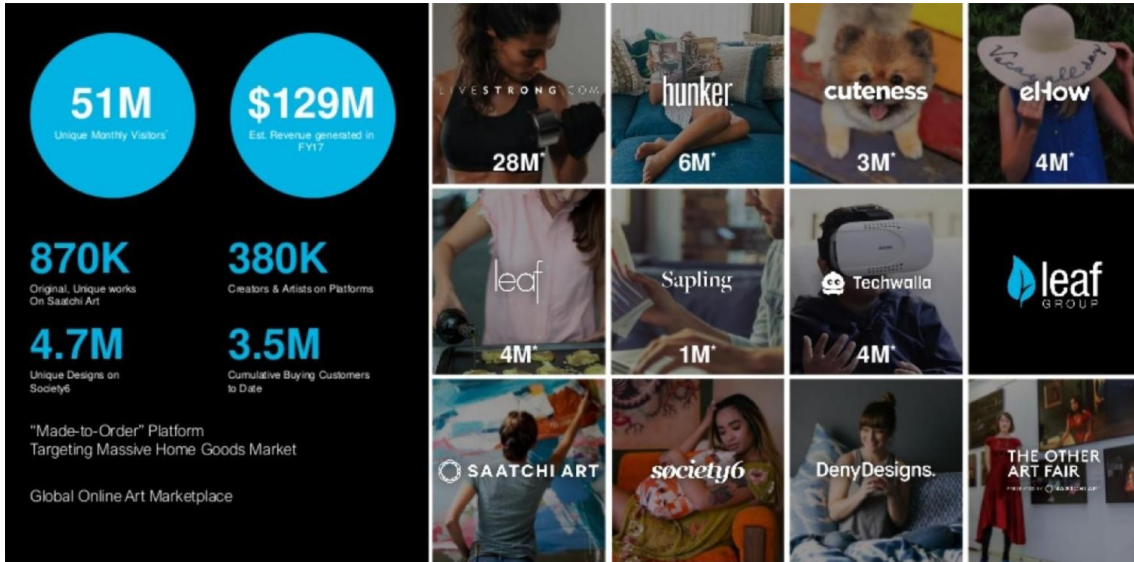
Below is a thumbnail of LiveStrong, which has 28 million unique monthly users.



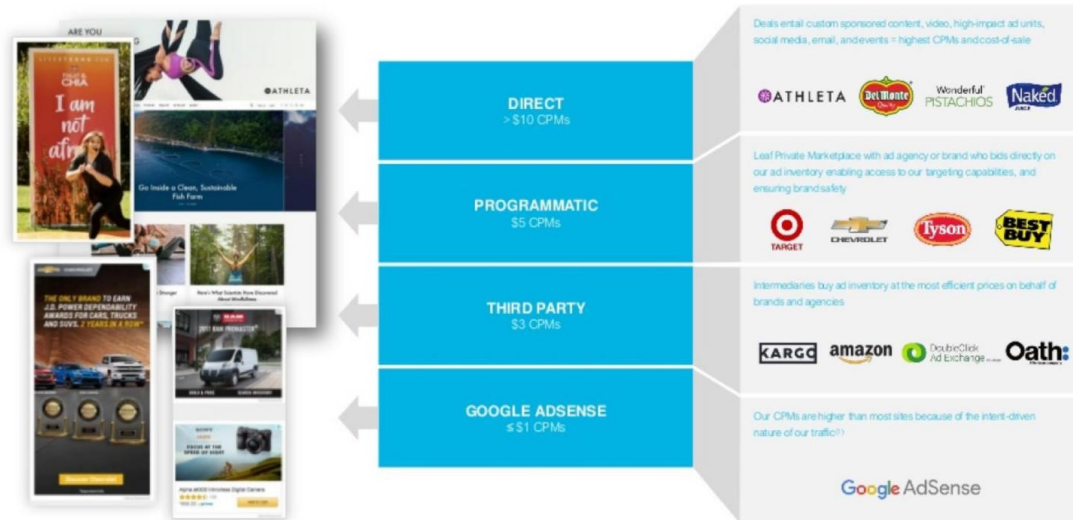
Below is one of Leaf Group’s Marketplace companies, Saatchi Art, the company takes 35% of transaction revenue:



Leaf should approach close to \$150 million in revenue between Media and their e-commerce Marketplaces business segments and the business is valued at \$110 million net of cash:



Media Advertising Monetization Business Model



Source: [Leaf Group Latest Investor Presentation](#).

There are tremendous benefits to scale in online media. The big catalyst is to move up the ad stack in terms of monetization. There is a 10x difference in monetization for the same ad depending if you use Google AdSense \$1 (this is why Google is a \$500 billion company) to direct, \$10 in revenue per thousand impressions.

KKR acquired WebMD for \$2.8 billion in July 2018 and Everyday (EVDY) was acquired for

\$440 million in the online healthy living industry. In Leaf's Media segment, we think LiveStrong is a gem acquisition target as it is a top property in traffic with 28 million monthly visitors. We think conservatively, Media is worth \$120-150 million with \$50 million in net cash on 24 million shares or \$7-8 per share and Marketplaces should be worth an additional \$8 per share based on 2x sales with \$85 million in marketplaces revenue (+24% growth with mid-teens organic growth rates). Public peer group for comparable businesses trade between 2-6x sales.

¹Market price as of the date of dissemination of the letter.