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Glacier Media (GVC.TO)
Ticker: GVC.TO
Price: $0.40 CAD (Updated: December 10, 2021)
FD shares outstanding: 133 million
Market cap: $53 million CAD
Cash: $17 million CAD
Debt: $5 million CAD
Enterprise value (EV): $36 million CAD
FY2020 revenues - $183 million

Executive Summary

Glacier Media (GVC.TO) is a left for dead Canadian microcap that has been quietly transitioning away from legacy newspapers and into attractive and growing digital assets. Despite a significant improvement in fundamentals, in which digital revenue now accounts roughly two thirds of the company's revenues, the company continues to trade at a ridiculously low valuation on a cash flow basis (2-3x 2019 EBITDA) and even more so on a sum-of-the-parts basis. Importantly, the market has completely ignored recently signed licensing deals with Google and Facebook, which are likely to result in an inflection in revenue and profitability for the company's digital media operations. I expect this could serve as a catalyst for a re-rating. Ultimately, I believe that value is likely to be crystallized through a buyout offer by Madison Venture Corporation, which already owns approximately 53% of shares outstanding.

On a sum-of-the-parts basis, I believe the company could be worth upwards of $1.20 CAD per share, or roughly a 3x from the current price. The downside is sufficiently protected by unencumbered assets on the balance sheet, including net cash ($0.13 per share), buildings & properties (at book value, $0.15 per share), and an expected recovery of a tax lawsuit ($0.18 per share), while giving no credit to revenue producing assets.

<u>Why is this opportunity likely to be mispriced?</u>

- The company is very small ($53m market cap).
- The company is illiquid.
- There is no analyst coverage.
- The company is in transition: while digital assets grow in revenue, their profitability is not high enough to offset declining legacy profits.
- The company does not screen well: given a number of JVs & investments in associates, you must rely on adjusted numbers to get a sense of the true "economics" of the business. Moreover, results are not easily comparable due to numerous acquisitions and dispositions.
- Management is very non-promotional. They do not hold conference calls nor provide substantial disclosure on the details of their operating assets/segments.

The Business

Over the past few years, Glacier Media has transformed itself from a legacy newspaper business into a holding company of quality, growing, digital assets. Operations can be broken down into 5 key buckets (although the company officially reports three segments):

1. <u>Legacy newspapers</u> (est. 34% of revenue) – the company operates newspapers focused on defensible niche segments (small towns/communities) where they tend to operate as the only player. Importantly, the company is managing this part of the business for cashflow and has no intention of continuing to run them if they can no longer be profitable. I expect that, over time, this segment of the business will be wound down.
2. <u>Digital media</u> (est. 27% of revenue) – this business is focused on local news, community information, and classifieds. These properties collectively reach over 27m unique visitors per month and over 180m monthly page views. Prior to 2020, digital media revenues grew at a 44% CAGR from 2016-2019.

3. Commodity information (~20% of revenue) – commodity information is focused on delivering agricultural and mining content, primarily information products, marketing/advertising solutions, and in-person trade shows. While this segment has grown at a fast clip, it has also suffered from weakness related to its respective end markets.
4. Environmental information (~15% of revenue) – this segment includes one of the company's crown jewels, ERIS, which provides property data for environmental assessments/due diligence; it is typically used by real estate appraisers, municipalities, developers/architects, legal firms, engineers, and financial institutions for accurate environmental information. I estimate that this entire segment represents roughly $30m in revenue and has been growing at a mid-teens CAGR.
5. Property information (est. 4% of revenue) – this segment is composed of REW.ca (like realtor.com), the leading residential real estate listing and property information marketplace in British Columbia. REW is the number one in traffic and audience in BC, above other platforms such as realtor.ca and Zillow. Coming out of COVID, this segment has been growing above 40% in the last few quarters. Approximately ~2.8 million REW user sessions are recorded monthly.

Outside of the traditional print segment, the company's other assets are of much higher quality. They require little in the way of capital expenditures, are growing, and have larger addressable markets. I think management has done a good job of channeling cash flows from the legacy business into more attractive areas and are likely to continue to add value by adhering to this playbook.

Operations through COVID

2020 was a challenging year for Glacier. Revenue declined by 24%, with the bulk of the decline coming from the legacy newsprint business. The commodity information segment declined 19% because of less revenue from holding virtual shows rather than the traditional in-person events. Digital operations fared better. Local media digital revenue grew 7%, while the environmental information business fared better at +11%; REW.ca, the real-estate segment, performed the best and grew 29%. Despite lower revenue in 2020, however, the company remained profitable, generating $4.2m in EBITDA; including government subsidies and grants, the company performed quite well, generating $23m in EBITDA for the year, although these payments are expected to significantly taper soon.

Despite the challenges faced during the pandemic, the company is in significantly better shape coming out of it. Costs have been taken out of the business and digital operations have continued to perform well. A stronger consumer environment post-COVID in Canada should also bode well for advertising, both digital and print, as both consumer and business spending revert to normal. Moreover, consumer behavior is also likely to have been permanently changed during COVID, with more and more people relying on digital platforms for local news than before. I expect these trends should bode well for Glacier in the coming years.

Google + Facebook Licensing Deals

One opportunity that the market has completely missed comes in the form of licensing deals with Google and Facebook. In response to an upcoming media bill in Canada ("Bill C-10"), Google and Facebook have preemptively signed friendly deals that will: 1) pay publishers (including Glacier) for some of their content, and 2) drive traffic to their properties, which should lead to higher advertising and subscription revenue.

If this story sounds familiar, that's because it follows the Australian government's push to have Google and Facebook pay news publishers for their content. Earlier this year, News Corp (NWS.A), for instance, signed deals with Google and Facebook which are estimated to add, at a minimum, $90m in revenue per year to the company's publishing segment. Importantly, this amount is likely to come at a very high contribution margin, and most certainly adds substantially to the company's profitability.

Given this precedent, I think we can develop a sense of how significant the opportunity could be for Glacier Media over time. One way to size the opportunity is to look at Glacier's reach relative to News Corp's. For instance, News Corp's properties (WSJ, Barron's, NYP, The Times, etc.) generate roughly 600m unique monthly visits. GVC's properties, on the other hand, reach about 180m unique visitors per month. While I would not say Glacier's properties are of the same quality or that they should monetize at the same rate, I do think the exercise can be useful. For instance, if we assume Glacier's traffic is only 1/4 as valuable as NWS', we can calculate the incremental revenue for Glacier at $7m (180/600 x 1/4 x $90m). At a contribution margin of 90%, this could add over $6m in EBITDA per year or roughly a 40% increase relative to GVC's 2019 EBITDA of $16m. Looking it at another way, an incremental $6m in EBITDA translates to roughly $0.03 in EPS. At a 10x multiple, this could add another $0.30 per share in value (vs. the current $0.49).

Madison Venture Buyout?
While the value gap in sum-of-the-part stories can often prove illusive, I believe that Glacier's upside is most likely to be crystallized by a buyout from Madison Venture Corporation. Looking at the relationship between both firms, it's easy to see that Glacier and Madison are already tied at the hip. Madison, which has investments in publishing, real estate, industrial products, and telecommunications, is led by Glacier Media's chairman, Sam Grippo. The current CEO of Glacier, Jonathon Kennedy, is also a Principal at Madison. Notably, Madison collects ~$1m per year from Glacier in exchange for professional services. In addition to this expense, there have been numerous instances where Madison has provided financing for acquisitions or during times of distress. In July 2020, for instance, Glacier sold 45% of their environmental information business to Madison in a friendly deal that helped Glacier raise liquidity during COVID; GVC will retain profits for two years following the transaction and has an option to buy the assets back at fair market value in the future. While deals like this one strike me as fair for both parties, the "cozy" relationship can lead to clear conflicts of interest. However, with Madison owning approximately 53% of Glacier, it's fair to say that they have a vested interest in the company's success.

So why do I think a buyout offer is imminent? If Madison Venture is interested in owning all of Glacier, which I believe that they are, they would be better off paying less. If they wait until we see the much-improved results, then they will have to bid a much higher price for the business. This stems from my belief that fundamental results are likely to improve significantly in the coming months. With most of the company's revenue coming from advertising (a very economically sensitive industry) and the Canadian economy on the upswing, it's likely that we will start seeing much improving results. Additionally, the Google and Facebook deals are likely to result in a significant improvement in revenue and profitability as they start to bear fruit in the latter half of the year. If Madison wants to pay a lower price for the business, they are then more likely to make an offer sooner rather than later. One interesting "tell" occurred in March 2021 when GVC cleaned up its share structure by completing a plan of arrangement where they acquired the remaining shares of a publicly-listed subsidiary (GVIC). Following this move, GVC insiders have been active in repurchasing shares, with net buys of roughly 23 million shares (Madison and one significant director) since March, or roughly 17% of outstanding GVC shares since the share consolidation occurred.

What if an offer is never made? Well, in that case, I believe the opportunity is even better. Given the company's valuable digital assets, management could either spinoff or sell some of these assets to unlock this value.

Valuation
With Glacier, I believe there is tons of value any way you look at it. I believe that even a couple of key assets could be worth more than the entire market cap of the business. Here is my attempt to put some numbers around what I think the company could be worth:

I believe that the downside is very well protected. The company currently has a net cash position ($0.13 per share), buildings & properties (at book value, $0.15 per share), and expects to recover payment from a tax lawsuit ($0.18 per share). Additionally, recent purchases of assets such as Castanet ($22m paid in 2019, or $0.17 per share [while page views have roughly doubled since the acquisition]) and GeoSearch (55% of $15.2, or $0.06 per share) illustrate that a few of the company's assets can cover the current market price, while giving no credit to most of the cash generating assets.

Upside

I believe the company could be worth a 3x vs the current price, or roughly a $1.20 stock.

Sum of the Parts Analysis:

+$0.10 per share - Legacy Newspapers

- $66m est. 2021 revenue x 0.2x revenue multiple (implies a 2.0x EBITDA multiple)

+$0.39 per share - Digital Media

- $52m est. 2021 revenue x 1.0x revenue multiple (implies 7x EBITDA at 15% SS margin)

+$0.45 per share - Commodity Information

- $40m est. 2021 revenue x 1.5x revenue multiple (implies 10x EBITDA at 15% SS margin)

+$0.25 per share - Environmental Information (only 55% is owned by GVC; worth $0.45 total)

- $30m est. 2021 x 2.0x revenue multiple (implies 10x EBITDA at 20% SS margin)

+$0.26 per share - Property Information (REW.ca)

- $7m est. 2021 revenue at a 5.0x revenue multiple (implies 20x EBITDA at 25% SS margin)
- Most RE internet properties trade at HSD-LDD revenue multiples
    - PropertyGuru was acquired by Bridgetown 2 SPAC in late July 2021 for 22x trailing revenues. REA Group (Realtor.com being the best known subsidiary) last acquired ELARA real estate listing business in India for 8X trailing revenues.

-$0.37 per share - Corporate Overhead

- $7m est. 2021 corp. overhead at a 7x multiple

+$0.13 per share - Net Cash on B/S

Putting all these pieces together, I get to my PT of ~$1.20 per share. While I'm usually not a proponent of SOTP valuation techniques, I believe the lack of disclosure around key segments calls for a little bit of creativity with this name. One way to stress test this exercise is to back into the implied multiple on the $1.20 PT. At this price, the implied EV is ~$140M. Taking all segments at their steady-state EBITDA generation, I calculate that the company could generate $21m in EBITDA including the legacy newspaper business, which implies a ~7x multiple. Excluding the legacy newspaper business (which I estimate will generate $7m in EBITDA in 2021), my valuation implies a 10x EBITDA multiple. I believe this is a fair price to pay for a high-quality collection of digital businesses. Importantly, this valuation becomes even cheaper once you factor any incremental revenue from GOOG/FB licensing deals, which I have not included in this analysis.

Risks

- Potential conflicts of interest with Madison Venture Corporation (i.e., treating GVC as their own personal piggy bank)
- Potential take-under by Madison Venture Corporation / squeeze out of minority investors
- Potential tax liability - GVC has paid $23M out of the $56M potential tax liability as a deposit. If GVC were to lose the appeal process, they may owe as much as the remaining $33M plus interest. Management, however, is confident they will win and get their deposit back.
- Risk that the SOTP valuation gap/disconnect is not recognized by the market

Useful reading

- https://nationalpost.com/news/facebook-to-pay-14-canadian-media-outlets-for-content-but-deal-excludes-major-publishers
- https://www.thestar.com/business/2021/06/24/google-canada-signs-deals-with-eight-canadian-publishers-for-google-news-showcase.html