AdTheorent

Is A Sweetened Offer Possible?

Apr 02, 2024

Media
ADTH
NCM

Rating
Market Perform
Downgraded

Current Price
$3.28

Market Capitalization
298.17m

Shares Outstanding
90.90m

Float
31.54m

Institutional Holdings
14.84%

12-Month Low/High
$1.11/$3.98

Average 90-Day Volume
428190

Fiscal Year End
2022-12-31

Revenues ($ MIL)

Period	2022A	2023	2024E
Q1	34.2A	32.7	35.0
Q2	42.5A	37.6	40.6
Q3	37.6A	40.9	44.6
Q4	51.8A	59.7	69.0
	166.1A	170.8	188.9E

EPS ($)

Period	2022A	2023	2024E
Q1	(0.49)A	(0.06)	(0.04)
Q2	0.62A	0.09	(0.01)
Q3	0.06A	(0.05)	0.00
Q4	0.08A	0.01	0.06
	0.32A	0.00	0.06E

Definitive merger agreement. On April 1, 2024, the company announced it has entered into a definitive merger agreement to be acquired by privately held Cadent, LLC, a subsidiary of Novacap, for $324 million. The merger is an all cash transaction at $3.21 per share. Notably, the ADTH shares have increased roughly 160% over the past six months and currently trade slightly above the offering price.

Terms of the agreement. The merger agreement includes a 33-day go-shop period, which allows the company to solicit alternative acquisition proposals until its expiration at 11:59 pm ET on May 4. The agreement includes a termination fee of approximately $11.4 million. Importantly, accepting a superior deal during the go-shop window would lower the termination fee to roughly $6.5 million. Pending shareholder approval, the transaction is expected to be completed by the third quarter of 2024.

Shareholder & board support. The company's board, management team and H.I.G Growth Partners, which control roughly 40% of the company's outstanding shares, have entered into a voting and support agreement in favor of the transaction. We believe that there has been interest in the company in the recent past, and, as such, a sweetened offer is possible. Should the shares trade in line with peers, a valuation of $3.55 is possible. Under the terms of the agreement, Cadent has the right of first refusal, which may limit the interest of another potential suitor.

Takeover appears likely. Management indicated that Cadent has the financial capability to complete the transaction, and, as such, the downside risk of the merger falling through appears to be limited.

Rating changed. We believe that the majority of the upside in the shares have been achieved. Even the prospect of a sweetened offer, which is not certain, offers limited upside, in our view. As such, based on price considerations, we are revising our rating from Outperform to Market Perform.

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Investment Appraisal

Management indicated that the company has been pinged from numerous companies to be acquired in the most recent past. We are not surprised by the interest in the company given the uniqueness of the company's technology and business strategy. In our view, its business is well positioned to benefit from the deprecation of cookies, which appears to be underway. In our view, there are a significant number of companies that are not prepared and/or do not have the technical capability to compete in an environment without cookies. Management indicated that the interest waned over valuation.

In our view, the Cadent offer at $3.21 is a fair offer, but there are prospects of a sweetened bid based on peer group valuations. The company is in a "go shop" period which may stir interest. We would note that Cadent has a right of first refusal and the largest shareholder has already blessed its current offer. However, current valuations may indicate the prospect of a sweetened bid.

Figure #1 indicates that its peer group average Enterprise Value to EBITDA multiple is 11.7. Taking out the outlier, The Trade Desk, which is trading at a hefty 35.8 times EV to EBITDA, the peer average would be 9.1 times. Near current levels, the ADTH shares trade at 8.1 times EV to EBITDA, which is close to the 8.2 times the median for its peer group. Should the shares trade in line with peer group averages of 9.1 times, ADTH shares would trade near $3.55. This suggests that a sweetened offer between $3.28 (8.2 time multiple) and $3.55 (9.1 times) is possible. Certainly, there are significant risks in receiving a competing higher offer and completing a merger.

Based on the risk factors and the limited upside from current levels, we are changing our rating from Outperform to Market Perform based on price considerations. In our view, investors have received the lion share of the upside and there are downside risks from current levels, should a competing offer not materialize, especially given that the shares currently trade above the current offering price of $3.21.

Figure #1 Industry Peers

Digital Ad Solutions

Market Data as of 04/01/2024

	Share Price	Ent. Value ($M)	evenue 2023E	2024E	2025E	Ent. Value / EBITDA 2023E	2024E	2025E
The Trade Desk, Inc.	$87.31	$41,794	21.5x	17.5x	14.6x	54.2x	43.8x	35.8x
Criteo	$35.12	$1,654	1.6x	1.5x	1.5x	5.5x	5.2x	4.9x
iClick Interactive Asia Group Limited	$3.95	-$51	-0.3x	N/A	N/A	1.4x	N/A	N/A
QuinStreet, Inc.	$17.42	$911	1.5x	1.3x	1.2x	46.5x	25.1x	16.1x
Perion Network Ltd.	$21.88	$831	1.1x	1.0x	0.9x	4.9x	4.6x	4.1x
Fluent, Inc.	$0.50	$51	0.2x	0.2x	0.1x	7.5x	4.6x	3.1x
Pubmatic, Inc.	$23.74	$1,109	4.2x	3.8x	3.4x	14.7x	12.4x	10.6x
Viant Technology	$10.80	$462	2.1x	1.8x	1.6x	15.9x	12.5x	10.2x
Inuvo, Inc.	$0.34	$43	0.6x	0.4x	0.4x	-8.1x	-151.9x	8.5x
Magnite, Inc.	$10.58	$1,687	3.1x	2.8x	2.5x	9.8x	8.7x	7.6x
Digital Media Solutions	$1.00	$261	0.8x	0.6x	N/A	30.0x	13.1x	N/A
Adtheorent	$3.28	$228	1.3x	1.2x	1.1x	10.3x	9.0x	8.1x
Direct Digital	$14.31	$229	1.5x	1.3x	1.1x	20.2x	18.7x	16.5x
Townsquare Media, Inc.	$11.68	$655	1.5x	1.4x	N/A	6.5x	6.0x	N/A
		Mean	3.7x	3.2x	2.7x	17.1x	14.1x	11.7x
		Median	1.5x	1.5x	1.4x	10.2x	-8.0x	8.2x

Source: Noble estimates & Company filings

Company Profile

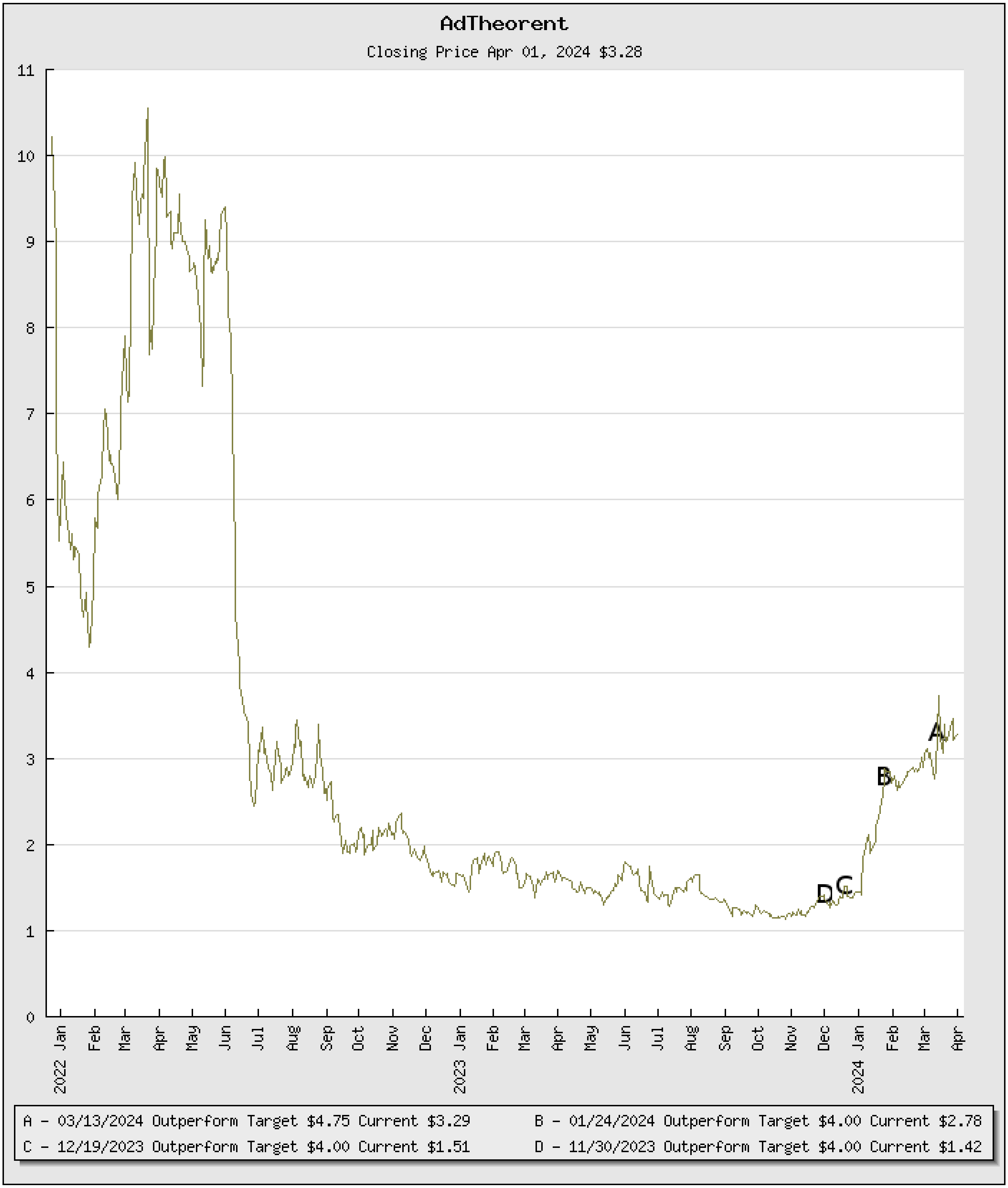
AdTheorent Holding Company, Inc. is a digital media technology company. It uses advanced algorithm-based solutions to improve targeted advertising outcomes for both agency and brand customers. The company builds custom machine learning models for each campaign using historic and real-time data without relying on individualized profiles or sensitive personal data. The company was founded in 2012 and has 13 offices across the U.S. and Canada. AdTheorent trades on the NASDAQ stock exchange under the symbol "ADTH."

Fundamental Analysis   4.0/5.0 Checks

In our assessment, we gave the company 4.0 checks, which implies that the company is above average. This analysis takes into account the company's corporate governance / management, market opportunity analysis, competitive position, operating leverage and financial leverage. The company scored high on its competitive position given its ML-based audience targeting methodology. In addition, the company scored high on its corporate governance/management, given the tenure of the management team and the breadth of experience of its board. We have also given the company high marks for its market opportunity, due to the growth in programmatic advertising.

Valuation Summary

Near current levels, the ADTH shares trade 8.1 times Enterprise Value to our 2025 adj. EBITDA estimate, or near the current peer group median. We believe that there is limited upside from near current levels to warrant an Outperform rating. A valuation near peer group averages (excluding one outlier) would imply a stock valuation on the high end of $3.55, roughly 8% above current stock valuations. We note that we consider the $3.21 per share offer to be fair. Such upside prospects are below the 15% return that warrant our Outperform rating. As such, we are changing our rating from Outperform to Market Perform based on price considerations. In addition, there are risks in achieving a sweetened bid which include, the lack of interest in the company during its "go shop" period, risks associated in completing a merger including financial and regulatory issues, and the limiting interest in a company that has a large shareholder that has already approved of the current offer, and the time value of the investment.


AdTheorent
Closing Price Apr 01, 2024 $3.28
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2024
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B
C
D
A - 03/13/2024 Outperform Target $4.75 Current $3.29
B - 01/24/2024 Outperform Target $4.00 Current $2.78
C - 12/19/2023 Outperform Target $4.00 Current $1.51
D - 11/30/2023 Outperform Target $4.00 Current $1.42

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company’s fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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FINRA licenses 7, 24, 66, 86, 87.

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Outperform: potential return is >15% above the current price	86%	20%
Market Perform: potential return is -15% to 15% of the current price	14%	4%
Underperform: potential return is >15% below the current price	0%	0%

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