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Strategy analysis and valuation of North Media A/S

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1. Background

1.1 Introduction

North Media's history dates back to 1965 where distribution of unaddressed printed matter and newspaper was the main activity. In 1978 and 1996, publishing of ad-funded distribution (Søndagsavisen) and Internet activities respectively began. In May 1996 North Media A/S (known then as Søndagsavisen a-s) was the first media Group in Denmark to be listed on the Copenhagen Stock Exchange[1]. As of March 14, 2014, North Media is the only Media Company listed on the OMX Copenhagen Stock Exchange.

Since North Media's listing in 1996, a lot has happened not only on the stock market but also within North Media. In March 2007, North Media's stock reached a record high level when it was trading at 106,00 DKK per share. Subsequently, the stock price has experienced a staggering fall reaching 12,50 DKK as of February 2, 2009. The decrease is partly explained by the collapse of the stock markets as a result of the financial crisis, and partly by the fact that the Media Industry is sensitive to GDP trends and North Media has over the financial crisis experienced a significant decreasing turnover and earnings.

North Media is a relatively small media house and its shares are listed on the Small Cap Index, thus it receives almost no publicity compared to stocks trading on C20 Index. Nordea Markets is the only stockbroker monitoring North Media[2]. The fact that North Media is the only Media Company listed on OMX Copenhagen Stock Exchange and the current trend in the Media Industry makes North Media an interesting case.

Can North Media return to heydays experienced in the period up to 2007 i.e. before the financial crisis? To clarify this, I find it interesting to make a strategic analysis and valuation, so as to find out if the market value of the North Media shares is under or overvalued compared to the current market value.

1.2 Problem formulation

The main purpose of this thesis is to make a strategic analysis and valuation of North Media A/S with the departure point in the DCF and EVA models. On the basis of the valuation, it is

[1] http://www.uk.northmedia.dk/investor.cfm
[2] http://www.uk.northmedia.dk/analysts.cfm

possible to assess whether the company's shares trade at below or above market value compared with the current market value. The main question in this thesis is:
What is the market value of North Media's share as per 30 December 2013?

In order to find an answer to the question, the following will be examined:

Chapter 3: Strategic analysis

- What macro and microenvironment factors affect North Media's performance and future prospects?
- How does the competitive environment in the media industry affect North Media's ability to serve its customers and generate profit?
- What are North Media's internal resources and competences?

Chapter 4: Financial statement analysis

- What are North Media's underlying financial value drivers?
- How good is North Media at creating shareholder value?
- How is North Media's ability to manage risks and generate profitable growth?

Chapter 5: SWOT analysis

- What are North Media's strengths, weaknesses, opportunities and threats?

Chapter 6: Budgeting

- What are the budget assumptions?
- How is the future financial performance expected to develop?

Chapter 7: Valuation

- What is the market value of North Media's share? Does it trade at above or below market value?
- What will happen to the market value of North Media's share if the basic assumptions about the future change?

1.3 Source criticism

The main part of the information used in this thesis is desk research (publicly available information). Therefore, the information used stems from books, publications, articles, websites and information from North Media's annual reports and website.

The primary source of information is North Media's audited annual reports, company announcements and website. The quality of the information is considered credible due to the fact that North Media is a publicly listed company and hence its annual reports have to live up to requirements set by regulatory authorities including OMX Copenhagen Stock Exchange. Finally, the annual reports during the period under consideration i.e. 2009-2013 have an unqualified auditors' report meaning that the presented information is correct and free from material misstatements.

For the valuation process, materials from different literary material have been used. The books "Regnskabsanalyse og Værdiansættelse" by Ole Sørensen, "Financial Statement Analysis and Valuation" by Penman are referred to most in this instance. The literature in the used books is expected to be valid, since the authors are highly acclaimed. Therefore, their theories and models have been used without further qualification.
The articles included in this report have been obtained from different sources, including newspapers. Some uncertainties regarding newspaper articles can be expected depending on the journalist's own position that is why they are used with great caution. However, the articles have been used because I believe they add value to the thesis.

1.4 Demarcation

In connection with the preparation of this thesis, the following demarcation has been undertaken.

The analysis and valuation will be based on the financial information available until 14 March 2014 (the research deadline date). Information available after this period will not be used in estimating the target price. This means market information, which is obtained after that date and which may affect the valuation of North Media is not included in the thesis.

In 2012, 97% of North Media's turnover was realised in Denmark and the remaining 3% in Sweden. Consequently, the analysis will only focus on the Danish market because analysis of the Swedish market will not add value to the analysis to the same extent as the Danish market.

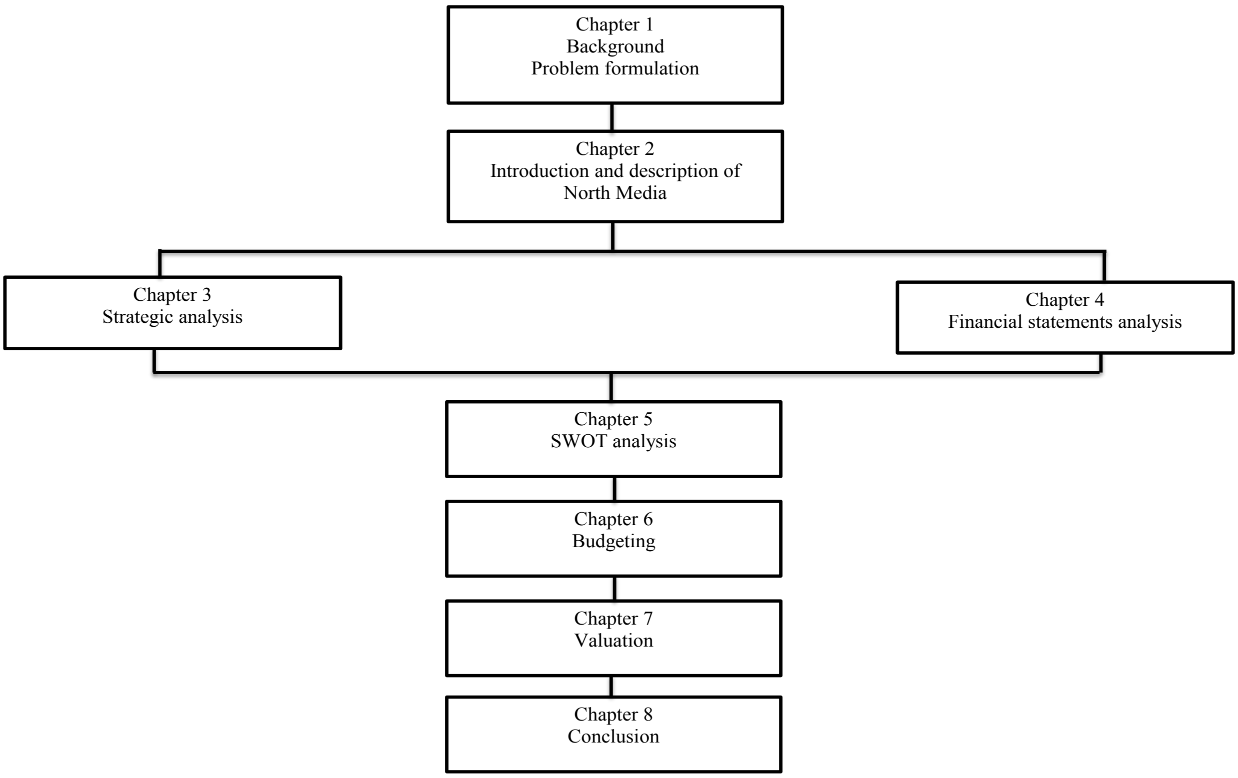
As an outsider, I did not have access to all material. I contacted North Media to hear their availability for interviews, to no avail. North Media is a listed company, which according to the law can only state already issued publications. This may explain the company's need to protect some of the information for their own interest, meaning that not all information has been published in annual reports; which could improve the accuracy of the thesis.

The readers of this thesis are assumed to be familiar with the models and theories used. Thus, the models and theories are only described shortly.

The demarcation is not expected to have an impact on the quality of the analysis and valuation.

1.5 Structure of the thesis

Figure 1.2 structure of the thesis



Source: own creation

In chapter 1 the background and problems formulation will be stated and the formal requirements (methods and models, source criticism and demarcation) forming the basis for the remainder of this thesis will be presented.

In chapter 2 a short presentation of North Media will be made. The presentation will include history, ownership structure, the organisation, products and markets.

In chapter 3 the strategic analysis will be reviewed in order to identify non-financial value drivers that are considered to have an impact on the performance of North Media. Three models will be used in the analysis. The PEST analysis will focus on analysing the macro-environment that might affect North Media's future earnings potential. Porter's five forces will be used to analyse the factors that can have an impact on the industry's ability to earn money and create shareholder value. The value chain analysis will be done to identify North Media's internal resources and competences, in order to find out where value is being created and added to the final product.

In chapter 4 the analysis of financial value drivers is the focus, with the departure point in the last five years i.e. 2009 – 2013. The financial statements will be reformulated in order to be used for analytical purposes. The reformulated financial statements will be analysed in order to understand North Media's historical performance during the last five years. A ratio analysis will be designed where profitability, ROE, ROIC, financing, etc. will be analysed. Finally, a risk analysis will be done in order to establish North Media's ability to manage risk. The analysis will form the foundation for developing future budgets (chapter 6) and valuation (chapter 7).

In chapter 5 a SWOT analysis will summarise the main conclusions in chapters 3 and 4 in order to find out North Media's internal strengths and weaknesses, and the external factors, which create opportunities or pose threats to North Media.

In Chapter 6 the future budget will be designed based on historical performance during the last five years i.e. 2009 - 2013 and conclusions in chapters 3 and 4. A budgeting period of five years i.e. 2014 – 2018 has been chosen. A budget control will be performed at the end of the budget period, in order to determine if the budget assumptions are realistic compared to historical performance. The budget will form a basis for estimation of North Media's value of equity in chapter 7.

In Chapter 7 the valuation will be made using the DFC and EVA models. To be able to use the models, WACC and the cost of equity will be calculated in order to estimate the required rate of return for investors. Subsequently, the multiples (P/E and EV/EBITDA) will be used to check if the values estimated by using DCF and EVA models are realistic. In this connection, sensitivity analysis (changes in WACC and growth in terminal period) will be carried out in order to see the impact of changes in the basic assumption about the value of North Media's share price.

In Chapter 8 answering the question in the problem formulation will conclude the thesis.

2. Company description

North Media A/S is a Danish-based publisher of the widely read Danish newspaper Søndagsavisen with weekly readership of over 1.2 million while other local newspapers have a weekly readership of approx. 0.4 million[3]. In addition, North Media is a leading distributor of unaddressed printed matter (advertisements) distributed door-to-door to all households in Denmark twice a week[4]. Furthermore, North Media is one of Denmark's leading providers of online services (Internet-based advertisement services) with approx. 600,000 users targeting Danish consumers with a particular focus on the job market (offir.dk), the housing market (boligportal.dk, bostadsportal.se, byggestart.dk, hentetilbud.dk), retail (minreklame.dk), news (søndagsavisen.dk) and job board (matchwork.com)[5]. Geographically, Denmark is North Media's main market accounting for more than 97% of consolidated revenue in 2013. The company has a small presence in Sweden where approx. 3% of turnover was realised in 2013[6]. Businesswise, the print segment accounted for 91% of turnover in 2013 whereas the online segment accounted for 9%[7]. North Media employs approx. 600 people[8].

2.1 History of North Media

North Media was founded in 1965, with the distribution of unaddressed printed matter and newspapers as its principal activity. In 1978, the company expanded its activities and began to publish free newspapers that were distributed to households during weekends under the name of Søndagsavisen. The newspapers were financed by advertisements. Since then, Søndagsavisen became the name of the entire corporation. In 1996 the Internet activities commenced, becoming a new main activity[9].

At the Annual General Meeting held on 23 April 2010, it was resolved to change the Company's existing legal structure to the effect that the name of the Group was changed from Søndagsavisen a-s to North Media A/S[10].

[3] Annual report 2013 page 26
[4] Annual report 2013, page 19
[5] Annual report 2013, page 75
[6] Annual report 2013, page 79
[7] Annual report 2013, page 12
[8] Annual report 2013, page 80
[9] http://www.uk.northmedia.dk/brief.cfm
[10] http://www.uk.northmedia.dk/online.cfm?pagesect=home

2.2 Executive Board and Board of Directors

Lars Nymann Andersen has been CEO since 2011. He holds a Master of Law degree from the University of Copenhagen and Essex (UK). He has been with North Media since 2002 assuming different positions including CEO of Helsingør Dagblade and Legal Advisor[11]. Kåre Stausø Wigh has been CFO since 2005. He holds an Executive MBA from Copenhagen Business School. Before joining North Media he worked as Senior Financial Controller at The East Asiatic Company Ltd. A/S Singapore[12].

Richard Bunck (principal shareholder) has been Chairman of the Board of Directors since 2004. He trained in shipping at The East Asiatic Company Ltd A/S. He is also the Chairman of the Board of Directors in Forbruger-Kontakt A/S, North media Ejendomme ApS, Væksthuset ApS (bostadsportal.se). In addition, he is Vice Chairman of Boligportal ApS, Matchwork World Wide A/S, Søndagsavisen A/S and Good Media A/S[13]. Peter Rasztar has been Vice Chairman of the Board of Directors since 2005. He holds a Diploma in Accounting and Finance Management (HDR). He previously worked as CEO of Tulip International Ltd (UK), ESS-FOOD UK Group (UK), Swedish Meats (Sweden) and CEO of Danpo/the Kronfågel Group (Denmark and Sweden)[14].

2.3 Capital and ownership structure

North Media's share capital is DKK 100.3 million, distributed on 20,055,000 shares of DKK 5.00 nominal, which has been fully paid up[15]. All shares are listed on NASDAQ, OMX Copenhagen Stock Exchange, and Small Cap Index thus raising the possibility to raise additional capital if needed. Market Cap is DKK million 320 as per December 30, 2013. Ownership is highly concentrated with the largest shareholder Richard Bunk via Baunegård ApS holding 56.39% of the shares. Institutional investors, pension funds and private investors own the remaining share capital. BNP Securities Services holds 4.5%[16]. No shares grant special rights and the negotiability of shares is not limited in any way[17].

[11] http://www.uk.northmedia.dk/management.cfm
[12] http://www.uk.northmedia.dk/management.cfm
[13] http://www.uk.northmedia.dk/management.cfm
[14] http://www.uk.northmedia.dk/management.cfm
[15] http://www.uk.northmedia.dk/ownership-profile.cfm
[16] http://www.uk.northmedia.dk/investor.cfm
[17] http://www.uk.northmedia.dk/investor.cfm

2.4 Share price development

Figure 1.3 shows North Media's share price development between 2002 and 2013. As seen from the figure below, in March 2007, North Media's shares reached a record high level when they were trading at 109.00 DKK per share. Subsequently, the stock price has experienced a staggering fall (down by 88.5%) reaching 12.50 DKK as of February 2, 2009. The decrease is partly explained by the collapse of the stock markets as a result of the financial crisis and partly by economic slowdown. Consequently, North Media has over the financial crisis, experienced a significant decreasing turnover and earnings (please refer to figure 2.2 below). As of March 14, 2014, the stock was trading at 19.00 DKK.

Figure 2.1 Share price development

Source: http://uk.finance.yahoo.com

2.5 Products

North Media operates within two business units namely Print (Newspapers and Distribution) and Online (Internet services).

2.5.1 Print

2.5.1.1 Newspapers (Søndagsavisen and other local newspapers)

Søndagsavisen has a weekly readership of more than 1.2 million, making it the most widely read newspaper in Denmark. Publication of advertisement funded door- to- door distributed free newspapers and a daily newspaper. Helsingør Dagblad is a morning paper and has 6,000 subscribers six days a week. Lokalavisen Nordsjælland is distributed freely as a mid-week newspaper to 35,000 households[18].

In October 2013, North Media acquired eight local newspapers in Copenhagen and Frederiksberg from Berlingske Media A/S for DKK 69,5million. Following the acquisition, North Media A/S will be publishing 1.6 million newspapers per week nationally[19]. Within newspapers, North Media has a market share of approx. 4%[20], focusing primarily on free newspaper (Søndagavisen) and local newspapers.

2.5.1.2 Distribution

FK Distribution distributes unaddressed printed matter and free newspapers door-to-door to all households in Denmark twice a week. Printed matter for the individual households is packed at one of FK Distribution's two terminals in Taastrup and Tilst, respectively. Approx. 12,000 distributors managing approx. 16,000 routes distribute the printed matter[21]. Within distribution, North Media has a market share of 40%, the remaining 60% being covered by Post Danmark.

2.5.2 Online

The Groups online activities provide a number of Internet services targeting Danish consumers with a particular focus on the job market (offir.dk, matchwork.com), the housing market (boligportal.dk, bostadsportal.se, byggestart.dk, hentetilbud.dk), retail (minreklame.dk), and news (søndagsavisen.dk). Offir.dk is Denmark's second largest, privately owned job portal. Ofir's main competitors are Jobindex, Jobzonen and StepStone as well as Jobnet, which is owned by the Danish State[22]. MinReklame.dk is Denmark's largest distributor of digital supermarket leaflets and advertisements[23]. Within online activities, offir.dk commands a market share of 20%. The largest competitors being Jobindex, Jobzonen, etc. the market share of other online activities were not established.

2.6 Financial developments

2.6.1 Turnover

Figure 2.2 Financial developments

[18] Annual report 2013, page 26
[19] Press release of October 23, 2013 (Company announcement no 09-13).
[20] Including national, regional, local and free newspapers
[21] Annual report 2012, page 19
[22] Annual report 2013, page 19
[23] Annual report 2013, page 9

In DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Print	957	1,070	1,147	1,018	971
Online	71	69	65	87	91
Total turnover	**1,028**	**1,139**	**1,212**	**1,105**	**1,062**

Source: own creation based on 2009-2013 annual reports

In 2010, turnover increased by 11% driven by print (up by 12% y/y) whereas online decreased by 3% primarily due to the low activity level in the job advertisement market. The increase in 2011 is explained by the same reasons mentioned above. The decrease in turnover in 2012 and 2013 is caused by a decrease in print down by 11% and 5% respectively; whereas turnover in the online segment increased by 34% and 5% for 2012 and 2013 respectively. The increase in turnover of 13% in the print business was due to acquisitions offset by a decrease of 8% in FK Distribution, which had a difficult year due to economic slowdown. The print segment contributes more than 92% of total turnover during the entire period. However, the share of revenue coming from the online segment has increased tremendously during the last two years.

2.6.2 EBIT and EBIT margin

Figure 2.3 EBIT and EBIT margin

In DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Print	71	170	217	141	86
Online	-42	-50	-50	-40	-26
Unallocated costs	-9	-10	0	0	3
Group EBIT	20	110	167	101	63
EBIT margin (Print) (%)	7,4%	15,9%	18,8%	13,8%	9,0%
EBIT margin (Online) (%)	-59,2%	-72,5%	-76,9%	-46,0%	-29,0%
Group EBIT margin (%)	1,8%	9,7%	13,7%	9,1%	6,0%

Source: own creation based on 2009-2013 annual reports

EBIT and EBIT margin shows a mixed trend. They increased between 2009 and 2011 before decreasing between 2012 and 2013. EBIT and EBIT margin follow the same trend as turnover. The increase in EBIT margin is attributable to cost reduction. Group EBIT is negatively affected by the online segment, which has realised losses during the entire period.

2.6.3 ROIC and ROCE

Figure 2.4 ROCE and ROIC

	2009	2010	2011	2012	2013
ROCE	1,5%	14,5%	67,4%	13,5%	3,2%
ROIC	2,4%	15,8%	70,2%	15,5%	5,1%

Source: own creation based on reformulated 2009-2013 annual reports

ROCE, ROIC and Group EBIT margin follow the same trend. They both increased between 2010 and 2011 before decreasing between 2012 and 2013. The significant increase in 2011 is impacted by one-off items of DKK million 182 related to profit from disposal of subsidiaries.

2.6.4 Balance sheet and equity

Figure 2.5 Balance sheet and equity

In DKK million	2009	2010	2011	2012	2013
Total assets	803	762	869	865	916
Total shareholder's equity	574	498	524	512	523
Equity ratio	71,5%	65,4%	60,3%	59,2%	57,1%

Source: own creation based on 2009-2013 annual reports

The decrease in balance sheet in 2010 (down by 5,1% y/y) is attributable to a decrease in intangibles (completed development projects, software) and other non-current assets (down by 50% y/y). The decrease in shareholder equity in 2010 is due to distribution of extraordinary dividends[24]. Balance sheet levels are fairly the same in 2011 and 2012. The increase in 2013 is explained by an increase in intangibles (up by 96% y/y) mainly due to acquisitions of 8 local newspapers in the Copenhagen area. The increase in shareholder equity in 2013 did not lead to an increase in the equity ratio, which decreased from 59.2% to 57.1%.

2.7 Markets

North Media operates within two markets i.e. Denmark and Sweden. Denmark is North Media's main market and accounts for more than 97% of consolidated revenue in 2013. The company has a small presence in Sweden where approx. 3% of turnover was realised in 2013[25].

2.8 Mission, objective and strategy

Since its establishment in 1965, North Media's corporate mission has been to communicate advertisements and information to consumers. This is done through:

[24] Annual report 2010, page 10
[25] Annual report 2013, page 79

- Print activities: Distribution to all households in Denmark of own and third party ad-financed door-to-door distributed free newspapers as well as unaddressed advertisements. Publication of ad-financed door-to-door distributed free newspapers as well as a daily newspaper.
- Online activities: Provider of several online services targeted at Danish consumers, particularly focusing on the market for job advertisements, the housing market and retail trade[26].

Profitability being North Media's primary objective, the Group aims to be one of the leading players within its primary areas of activity. In order to realise this objective, the Group's overall strategy is to be quality-oriented and expansive in the development of the organisation and its products[27].

North Media A/S operates in the financial front line, producing and selling against tough competition, where quality and personal effort make a difference[28].

For all its business areas, the driver of profitability is volume. It is therefore decisive that North Media achieve a significant share of the markets in which it operates[29].

Financial objectives/goals:

- Satisfactory return on invested capital (ROIC).
- Attractive dividend policy.

[26] http://www.uk.northmedia.dk
[27] http://www.uk.northmedia.dk/introduction.cfm
[28] http://www.uk.northmedia.dk/introduction.cfm
[29] http://www.uk.northmedia.dk/introduction.cfm

3. Strategic analysis

This chapter will deal with the analysis of non-financial value drivers that are considered to have an impact on the performance and development of North Media. The PEST analysis will focus on analysing the macro-environment that might affect North Media's future earnings potential. Porter's five forces will be used to analyse the factors that can have an impact on the industry's ability to earn money and create shareholder's value. Finally, the value chain analysis will be conducted so as to identify North Media's internal resources and competences, in order to find out where value is being created and added to the final product.

3.1 Macroeconomic analysis (PESTEL)

The PESTEL framework is used to explore the macro-environmental influences that might affect North Media in terms of revenue and earnings. There are six main influences in the framework: political, economic, social-cultural, technological, environmental and legal. Where necessary, the six factors will be examined in relation to North Media's business units.

3.1.1 Political

Unlike for instance the Medicine industry, the Media industry is not regulated, but is highly affected by political decisions. In Denmark, the industry is affected by government's decisions with regards to funding "Media Agreement". The current Media Agreement 2012 - 2014 was passed by the Danish parliament in October 2012. The agreement is seen as biased towards DR and TV 2 and less favourable to newspapers[30] due to the fact that more funds have been allocated to DR and TV 2 because of their public service contracts. In addition, the former Culture Minister (Uffe Elbæk) was seen by the newspaper industry as "unfriendly" for suggesting an increase in funding to small online media at the expense of large newspapers[31]. Furthermore, the industry is affected by the regulatory authority's decisions with regards to verdicts on potential consolidation transactions, EU policy regarding competition, copyrights, and advertising (restrictions on advertising for cigarettes, alcohol, cars and sweets). It is also affected by stricter regulations concerning marketing and soliciting practices.

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[30] http://journalisten.dk/s-mediest-tte-skal-ikke-kompensere-dagbladene
[31] http://journalisten.dk/s-mediest-tte-skal-ikke-kompensere-dagbladene

3.1.2 Economical

The media industry is generally sensitive to GDP trends due to strong correlation between GDP growth and advertising spending. Newspaper companies earn money through circulations (subscriptions or single copy sales) and advertising. In addition, newspapers generate revenue through printing, distribution and content generation. Free newspapers such as Søndagsavisen depend entirely on advertising spending. Consequently, North Media has been under massive pressure since the start of the global economic slowdown in 2008 and has seen the share of advertising revenue decrease dramatically. The financial crisis has led to an increase in the unemployment rate and a decrease in disposable income. Therefore, most people have cut down their expenditure on non-basic goods. As a result, most companies have cut their marketing budgets to reflect the decreasing demand for their products. In addition, the industry is affected by the development in the graphic paper market As a result, an increase in in the price of graphic paper poses significant risk to North Media and vice versa. Furthermore, currency risk is another risk that North Media needs to monitor closely since most raw materials are valued and sold in US Dollars (USD). The relationship between the USD and the Danish kroner (DKK) is therefore of particular importance to North Media as it may have adverse effects or create an opportunity. In recent years, there has been a tendency towards an appreciation of the USD vs. DKK. The trend has led to an increase in the cost of acquiring raw materials such as graphic paper, which is used in printing newspapers and hence operating costs to North Media. Higher operating costs have a negative impact on revenue and earnings. Going forward, the USD is expected to remain strong vs. the DKK partly due to the fact that the DKK is pegged to the EUR, which is under constant pressure because of the financial crisis in the Euro Zone area especially in the PIIGS[32] countries.

3.1.3 Social-cultural

Changes in consumption habits, lifestyles and demographic factors have affected the way people consume the media. The number of people reading printed matter (newspapers) has decreased significantly in recent years, and printed matter is becoming an increasingly isolated segment. This is partly due to the fact that the population (under 45 years) is less willing to pay for a newspaper[33]. In addition, the younger generation prefers digital media to printed matter due to increased ownership of smart phones, tablets or PCs which are much more convenient than carrying a newspaper. On the other hand, the older generation (45+) still prefers printed matter to digital solution for historical reasons. In addition, there is a tendency towards people sharing

[32] Portugal, Italy, Ireland, Greece, Spain
[33] Annual report 2012, page 22

newspapers with their neighbours leading to a significant decrease in the number of sold printed newspapers. The decrease in the number of sold printed matters has led to a 45% decrease in the dailies total revenue between 2006 and 2011[34]. Therefore, there is no doubt that North Media has to keep up with changing consumer habits and lifestyle, by investing more on the digital solution which seems to be the future of the industry.

3.1.4 Technological

The media industry is experiencing a major transformation process caused by a shift from printed matter to digital media. A major factor in the transformation is technological advances within web; mobile etc. the transformation has led to an increase in capital expenditure (capex) in order to keep up with changing consumer preferences/ lifestyles; because failure to react to changing consumer preferences could be more costly than investing in new technology. The cost is further increased by the fact that newspaper companies have to keep on sustaining their offline print newspapers despite a decrease in the share of revenue from this segment. In addition, new technology has lowered entry barriers for new types of media, and hence has led to increased competition. However, technological development has made it possible to introduce "click fees" (inverted by the New York Times) for the use of electronic media. The media industry in Denmark has been quick on copying the New York Times model of putting a limit on the number of articles a reader can access free of charge monthly. All large Danish newspapers have put a limit of how many articles a reader can access free of charge within a month. For instance, Politikken has put a limit of 25 articles a month. A reader wishing to read more than 25 articles a month has to pay a fee ranging between 29 and 229 kr. The trend provides good opportunities for players to collect money from readers from all over the world. However, North Media cannot take advantage of the "click fees" concept because it prints and distributes free newspapers.

3.1.5 Environmental

Environmental issues within the pulp and paper industries affect the media industry. These are likely to be exacerbated by the fact that newspapers are produced using graphic paper, which is produced from trees. There has been an increasing pressure on the industry with regards to environment protection, and potential political sanctions towards printing facilities could be imposed which could lead to increased costs to the newspaper. In addition, there is likelihood that newspaper production may be conducted from an old building which itself requires regular maintenance and upgrading to reflect government requirements. It is also very unlikely that such

[34] Annual report 2012, page 22, Dansk Oplagskontrol

an old building will be energy efficient and so heating costs are likely to be high and continue to increase. The printing facilities need to adopt appropriate policies on recycling and energy conservation, but it may be difficult to achieve these targets in the context of an old building. Consequently, environmental issues may combine with social issues to encourage the consideration of the possible relocation of the production facility to a modern building.

3.1.6 Legal

The media industry is exposed to potential legal proceedings, which might have a significant impact on players. A proposal by the Danish government to introduce advertising tax on unaddressed printed matter (reklameafgift)[35] was passed by the Danish parliament in December 2012. The tax was expected to take effect on January 1, 2013; however, it has been put on hold until the EU has adopted the draft legislation. The tax will depend on advertisements weight, and the price is expected at 4 DKK per kilo for advertising without label "Flower" and 2 DKK per kilo for advertising with the label. According to a report by Copenhagen Economics[36], the proposed tax is expected to cost dailies approx. 400 DKK million annually. Consequently, revenue and earnings will come under high pressure if the cost cannot be passed on to final consumers.

3.2 Industry analysis (Porters Five Forces)

Porter's five forces are used to analyse the factors that can have an impact on the industry's ability to earn money and create shareholder value. The five factors are discussed below and if necessary will be examined in relation to North Media's business units.

3.2.1 Rivalry among existing competitors

Newspapers

Free newspapers are newspapers with news, lifestyle and background material distributed free to readers due to the fact that the cost of production and distribution are to be covered entirely by advertising revenue[37]. As a result; the wider the readership the higher the ad price.

Søndagsvisen, MetroXpress, Ti minutter and Extra dominate the free newspapers industry in Denmark. Søndagsavisen is a weekly newspaper, published over the weekend in several versions aligned to the specific region. The newspaper is published in 24 regional editions, where the ads

[35] The tax will be imposed on printed matter which is distributed door to door free of charge for the recipient, and containing less than 25% editorial material
[36] The report was released on November 13, 2011
[37] http://www.avisnet.dk/AvisNET/application.do?command=getDocument&documentId=F1261B498B48FEE0C125747F0044631B

are adjusted to the individual regions based on analyses of the inhabitants' purchasing, traffic and behavioural patterns in the relevant area[38]. MetroXpress is considered the country's largest newspaper in terms of number of readers[39]. Ti minutter and Extra have their main focus in North Jutland and Funen respectively.

Competition in the free newspaper segment is intense due to the fact that each player wishes to become the larges,t and be able to attract more ads and hence cover operating expenses. North Media's competitive advantage is the fact that the newspaper is delivered direct to households, unlike Metro Express, which is distributed to people on the street or in public transport systems. In addition, North Media has a strong regional and local presence and hence adverts can be tailored to a specific region. The industry offers high consolidation opportunities due to a large number of local newspapers. In 2013, North Media acquired 8 local newspapers in the Copenhagen areas in order to increase its market share.

Distribution

Post Danmark and FK Distribution dominate the distribution industry. Therefore, the market is considered a duopoly. Despite the duopolistic nature of the market, competition between the two players is fierce as the market is decreasing. FK Distribution customers range from small retailers to large chain traders such as COOP and Danske Supermarked. In 2010, the market for door-to-door distributed advertisement reached 3 billion (down from 3.2. billion in 2007) and dropped to 2.4 billion in 2013[40]. The decrease is attributed to economic slowdown, as more retailers have cut down their marketing budget to reflect decreasing demand for their products. In addition, the decrease is attributed to the increasing number of households marking their mailboxes "no ads please". It is estimated that approx. 20% of Danish households have marked their mailboxes with "no ads please"[41]. However, Denmark has the lowest number of "no ads please" households in Scandinavia[42]. Going forward the introduction of advertising tax amounting to 400 DKK million is expected to impact the market negatively if the cost cannot be passed on to consumers. Post Danmark has been very aggressive in the segment and has previously used price dumping in order to attract more customers[43]. In 2004, FK Distribution filed a law suit at the High Court of Eastern Denmark claiming compensation of 70 DKK million against Post Danmark A/S for abusing its dominant position by charging different prices to its

[38] Annual report 2013, page 26
[39] http://www.avisnet.dk/AvisNET/application.do?command=getDocument&documentId=F1261B498B48FEE0C125747F0044631B
[40] Annual report 2013, page 19
[41] http://fk.dk/produkter/Almindelig-husstandsomdeling
[42] Annual report 2013, page 19
[43] http://www.business.dk/diverse/soendagsavisen-as-truet-af-postdanmark

existing customers and Forbruger-Kontakt A/S' (now FK Distribution) customers. FK Distribution won the case at Competition Authority and the High Court Eastern Division. However, the Danish Supreme court reached a conclusion on February 15, 2013 that Post Danmark had not abused its dominant position in the market for distribution of unaddressed mail.

Online activities

The Groups online activities provide a number of Internet services targeting Danish consumers with a particular focus on the job market (offir.dk, matchwork.com), the housing market (boligportal.dk, bostadsportal.se, byggestart.dk, hentetilbud.dk), retail (minreklame.dk), and news (søndagsavisen.dk). The Group's online activities have attracted some 600,000 unique online users and offir.dk has a market share of approx. 20%[44]. The main competitors within the job market are Jobindex, Jobzonen, Stepstone with Jobindex.

Competition in the market is very intense due to the fact that the market is characterised by many players offering a homogeneous product, with no player having enough market power to set price or volume. In addition, the market is sensitive to GDP trends. The number of job adverts depends on the economic conditions and so is the number of adverts related to the housing market and retail business. Since the start of the financial crisis in 2008, the number of adverts has decreased significantly owing to the low activity level in the economy. However, market recovery has seen some recovery in areas such as the job market where the number of job adverts is increasing. Going forward, advertising on the Internet is expected to increase and the conversion of newspaper ads comprises more services as well as easy-access for consumers. North Media is following the trend closely and is expanding its online business activities to cover the declining earnings from the traditional newspaper business.

3.2.2 Bargaining power of customers

Newspapers

The bargaining power of customers (advertisers) is relatively high due to the fact that the customers are corporate buyers i.e. large chain stores and retailers with high bargaining power on price and volume. In addition, customers can easily change providers in order to gain better prices without incurring extra costs. Reaching a large audience is what matters to advertisers. If it turns out that Søndagsavisen has a lower readership in comparison to MetroXpress, customers

[44] Annual report 2013, page 31

will undoubtedly switch to MetroExpress in order to reach a larger audience. In addition, the cost of switching providers is relatively low. Furthermore, in general, the products purchased (advertisement) are standard and undifferentiated therefore customers can easily find alternative providers. All of the above suggest that the bargaining power of buyers is high in this industry.

Distribution

The bargaining power of customers is relatively high due to the fact that customers can easily switch providers in order to get better prices and still reach the same customer due to the fact that Post Danmark and FK Distribution have a large distribution network. As mentioned earlier, Post Danmark has previously used price as a competitive advantage in order to attract customers from FK Distribution. Consequently, FK Distribution lost a contract worth 400 DKK million from COOP. However, FK Distribution won the contract back and in December 2013, the contract was prolonged until December 2015[45].

Online activities

The bargaining power of customers is relatively high due to low switching.

3.2.3 Threat of substitute products

The presence of substitution reduces demand and might, in extreme cases, lead to the product or service becoming obsolete.

Newspapers

The threat of substitutes appears to be constant in the newspaper industry due to changing consumer life styles and behaviour. The substitute for newspapers within content comprise other types of media e.g. Television, mobile and online news. Newspapers are also confronted with more competition from companies outside the traditional newspaper publishing business, for instance from broadcasters' online news services, from national or local online only news providers, from (international) internet and software companies which offer news services such as AOL, MSN, Google, Facebook and Yahoo.

Online activities

Online news can be substituted with newspapers (printed media), mobile and Television.

[45] http://northmedia.dk/releasedetail.cfm?ReleaseID=810387

Distribution

Physical distribution can be substituted with digital distribution where customers can access the product online instead of being delivered to the address physically. In addition, TV advertising is also considered a substitute.

Overall, the threat of substitute products is considered low due to the fact that North Media has a wide range of products, which complement each other (print and online). Substitution will therefore be more of a change in fashion and new trends in the market than real products that can substitute newspapers, distribution and online activities.

3.2.4 Bargaining power of suppliers

Bargaining power of suppliers is considered low due to the fact that North Media does not depend on a single supplier. The main suppliers are printing companies and distributors. In addition, materials used in North Media's products are standard and the price levels are standard. Consequently, it is difficult for players to negotiate better deals than competitors. Furthermore, switching costs are low due to the fact that there are many suppliers supplying the same product and North Media is not tied to a specific supplier. However, if labour is considered as a supplier, then the bargaining power of suppliers is high due to the fact that it may prove difficult to find competent and committed journalists. But, freelance journalists can be used should it be needed. However, the fact that freelancers are not permanently employed by North Media, there is the possibility that they can either move to work for competitors or set up their own business to compete in the market. In addition, there is a certain degree of acceptable journalism, which has to be maintained for a newspaper to be taken seriously and be able to attract advertisers.

3.2.5 Threat of entry of new entrants (competitors)

Newspapers

Entry barrier into the newspaper market is considered low due to technological development. In the years up to 2000, the newspaper market experienced a high entry of free newspapers such as Metro Express, Urban, 24timer, etc. Despite low entry barriers, new entrants need to obtain reasonable readership in order to attract more ads to fund operating expenses. However, the fact that the market is mature with low growth potential makes it less attractive for new entrants to enter. Therefore, Urban and 24timer have already exited the market, as there presented no opportunity to improve their performance by keeping up with the industry growth. Consolidation in order to increase volume is seen as the best way to enter the market and hereby circumvent the challenges caused by decreasing volume.

Distribution

The distribution market is considered to have high entry barriers due to the fact that North Media and Post Danmark dominate the market and have established strong relationships with key customers supported by an extensive distribution network. In addition, the market is highly labour intensive making it costly to operate as a large share of the costs is fixed. Therefore economies of scale play a major role. It may prove difficult for new entrants to achieve economies of scale in order to reduce operating expenses due to the fact that the market is declining and the existing players have established strong relationships with customers. However, technological development allows quick and efficient digital distribution, hence lowering entry barriers.

Online activities

Entry barriers are low due to technological development. It is very easy to make a well-functioning website with a low capital base. The major hurdle is the ability to attract customers to place their ads on the website, because the existing players usually have established strong brands and captured a significant customer base.

Conclusion

The industry is highly affected by changing consumer preferences caused by technological changes. In addition, the industry is highly affected by political and legal decisions, which can have significant financial consequences. Furthermore, media companies have a weak bargaining power towards advertisers. Finally, competition in the industry is intense and threat of substitute products is high. However, the threat is reduced by technological development.

3.3 Company analysis

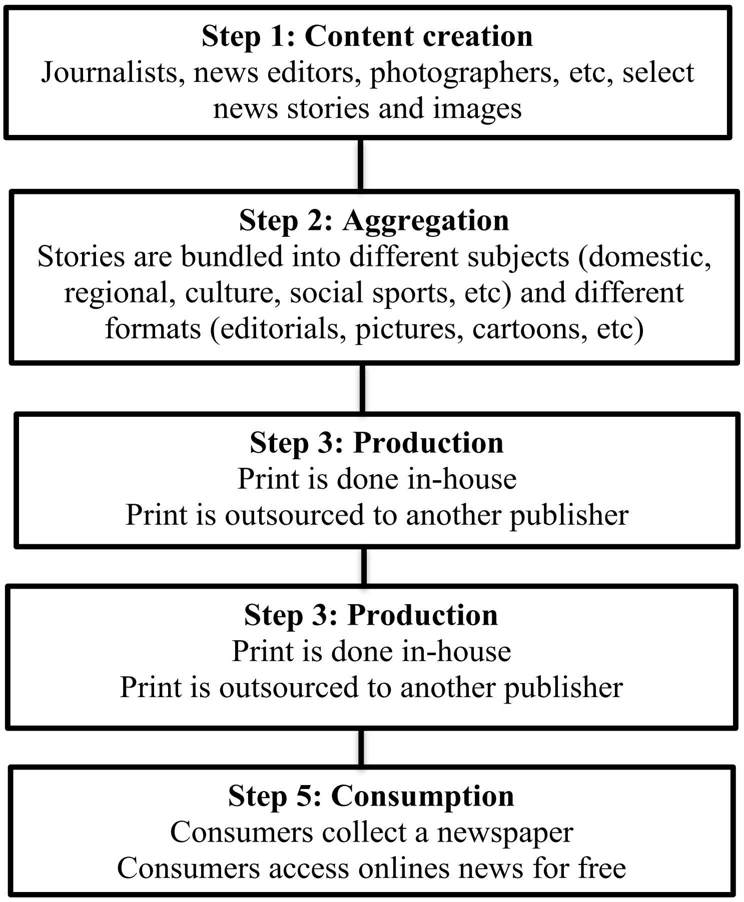
The analysis has so far focused on the company level including the internal and external factors that impact North Media. This chapter will focus on the analysis of North Media's products in order to find out where value is created. In addition, the analysis will determine which products are instrumental in generating turnover for North Media as opposed to those which do not - and most importantly, if there are products in the pipeline that present great opportunities.

Furthermore, the analysis will illustrate a better picture of how North Media needs to build a strategy on how to create economic growth and shareholder value going forward.

3.3.1 Value chain analysis

The value chain analysis is used to identify North Media's primary and secondary activities that add value to its final product. In addition, the analysis will be done in order to see where costs can be reduced or differentiation increased i.e. which activities are most valuable to North Media, and which activities can be improved in order to create a competitive advantage[46]. The fact that North Media operates within newspaper, distribution and online activities, makes it difficult to establish a peer that can be used to make a common size analysis. Therefore, it is difficult to draw a conclusion about whether the behaviour of North Media's costs / turnover is from an industry-wise phenomenon or it is primarily a company concern. The analysis is of a general character due to lack of information. Consequently, only the activities that are relevant for value creation in North Media will be analysed.

Figure 3.1 Value chain of a newspapers company



Source: own creation based on Leurdijk, Slot and Nieuwenhuis pages 21-22

[46] http://www.strategicmanagementinsight.com/tools/value-chain-analysis.html

3.3.1.1 Primary activities

Primary activities include all activities that add value directly to the production process as the product moves through the value chain. Primary activities are usually the source of cost advantage, where costs can be easily identified for each activity and properly managed[47]. Distribution is the only activity that will be analysed mainly due to the fact that it adds value to North Media's activities, and due to lack of information on other activities.

Distribution

Unlike its competitors, North Media distributes its own newspapers and third party unaddressed printed matter, brochures and weeklies door-to-door to approx. 2 million households in Denmark twice a week. Distribution is through FK Distribution. Approx. 12,000 distributors managing approx. 16,000 routes distribute the printed matter. The decision to insource the distribution activity creates a competitive advantage over rivals because it enables North Media to control the entire value chain from when the newspaper is printed to when it reaches the reader. On the downside, distribution is a labour intensive activity and hence it leads to an increase in operation costs because of increased demand for labour in order to distribute to 2 million households. To reach a wide distribution network, the company needs to educate its workers on the importance of delivering the newspapers on time.

A large number of employees in the distribution segment works part time[48], therefore the costs related to their wages and salaries is variable and can be reduced should the number of newspapers, unaddressed printed matter, brochures and weeklies continue to decrease.

Figure 3.2 Direct staff costs as % of turnover

In DKK Million	2009	2010	2011	2012	2013
Net turnover	1,029	1,139	1,212	1,105	1,062
Direct staff costs	220	203	204	200	205
Direct staff costs as % of turnover	21%	18%	17%	18%	19%

Source: own creation based on 2009 – 2013 annual reports

Figure 3.2 shows that direct staff costs as a percentage of turnover decreased from 21% in 2009 to 17% in 2011; whereas turnover increased by 18% during the same period. This shows that North Media has achieved operating efficiency by managing to generate more turnover with

[47] http://www.strategicmanagementinsight.com/tools/value-chain-analysis.html
[48] Annual report 2013, page 80

reduced staff costs. The increase in staff costs between 2012 and 2013 is attributed to the increase in the number of employees following the acquisition of Byggestart.dk/HentTilbud.dk, which has 29 employees. Despite the increase, North Media was very efficient in 2013 as compared to 2009 with direct costs as % of turnover of 19% compared to 21%.

3.3.1.2 Supporting activities

Competitive advantage mainly derives from technological improvements or innovations in business models or processes. Therefore, such support activities as 'information systems', 'R&D' or 'general management' are usually the most important source of differentiation advantage[49]. Human resource management and product and technological development are the only activities analyzed in this section.

Human resource management

Employees are considered to be North Media's significant asset due to the fact all North Media's business units require people to function. The Newspaper business is based on good journalism. Therefore, intensive employee education is imperative if the newspaper is to attract more readers and hence adverts.

The fact that North Media's activities are based in Denmark, employee expenses such as salary and pensions contribution are higher due to generally higher salary levels in Denmark. High salary levels are partly due to the fact that a large number of employees are members of a workers' union with high negotiation powers against employers. However, sharing editorial staff and other resources amongst different on- and offline products could reduce costs.

Figure 3.3 Direct staff costs as % of turnover

[49] http://www.strategicmanagementinsight.com/tools/value-chain-analysis.html

In DKK Million	2009	2010	2011	2012	2013
Net turnover	1,029	1,139	1,212	1,105	1,062
Direct staff costs	220	203	204	200	205
Staff costs	273	267	263	279	274
Total staff costs	493	470	467	479	479
Direct staff costs as % of turnover	48%	41%	39%	43%	45%
Average number of employees	672	627	602	637	613

Source: own creation based on 2009 – 2013 annual reports

In 2009, total staff costs made up 48% of turnover decreasing to 41% and 39% in 2010 and 2011 respectively. The decrease is attributed to a decrease in the number of employees (down by 10%) between 2009 and 2011. Despite the decrease in staff costs, North Media actually managed to increase turnover during the same period (up by 18%) between 2009 and 2011. This is deemed as a key competence because the company has managed to decrease staff costs by 9% whereas turnover increased by 18% during the same period. However, staff costs increased to 43% in 2012 partly due to the increase of the number of employees following the acquisition of Byggestart.dk/HentTilbud.dk, which had 29 employees. Despite a 3.8% decrease in the number of employees between 2012 and 2013, total staffing costs decreased by only 0.7% signalling that some salary increase were made in 2013.

Product and technological development

The discussion in chapter 3.1 revealed that consumer habits and lifestyles are changing constantly in the media industry. The printed matter segment is becoming increasingly isolated, as a large number of newsreaders increasingly prefer the digital media. In chapter 3.2, it was revealed that competition in the industry is fierce due to the fact that each player aims to become the largest in order to attract more ads and be able to cover operating expenses. In addition, it was revealed that the newspapers market is a mature market therefore making growth potential limited. Consequently, North Media's ability to launch new products that not only appeal to changing consumer preferences but also allow it to remain competitive is of particular importance.

North Media has reacted proactively to the aforementioned challenges by increasing investments in the Online business segment, which seems to be the future of the market. In 2012, North Media concluded the acquisition of Byggestart.dk and HentTilbud.dk in 2012. Revenue in the

Online segment increased by 21% to DKK 91 million in 2013 due to organic growth[50]. However, the segment still incurs losses due to large investments. In 2013, EBIT was realised at DKK -26 million (2012 DKK million -40). Advertising on the Internet is rapidly increasing and the conversion of newspaper ads comprises more services as well as easy access for consumers and currently all newspapers are expanding business activities on the Internet to cover declining earnings from the traditional newspaper business. Going forward, North Media expects to increase the share of revenue generated in this segment. In addition, North Media introduced a new business model in H2 2012 aimed at evaluation of digital services and segmented distribution allowing for price differentiation[51]. If successful, the model is expected to attract more customers and increase profitability through reduction of variable costs.

3.3.1.3 Summary

The above-mentioned product development initiatives indicate that North Media is determined not only to defend its market position but also remain competitive in a matured market. Hence, the ability to react to changing consumer preferences through the launching of new products will define the future performance and development of North Media.

[50] Annual report 2012, page 13
[51] Annual report 2012, page 19

4. Financial statement analysis

The analysis has so far concentrated on non-financial value drivers. The analysis will now focus on financial value drivers. Financial statement analysis will be conducted in order to understand North Media's historical performance over the past five years i.e. 2009-2013. The analysis will form the foundation for developing forecasts (budgets) of future performance and hence valuation of North Media[52].

Financial statement analysis consists of three stages (Penman)

1. Reformulation of financial statements for analytical purposes.
2. Analysis and adjustment of reported errors in order to make the figures comparable over time.
4. Financial ratio analysis on the basis of reformulated and adjusted financial statements.

Before embarking on the analysis, a short description of the auditor's report and accounting policies will be given in order to assess whether the financial statements are of a quality that allows for valid analysis.

4.1 Auditor's report

North Media's consolidated financial statements for the period 2009-2013 have an unqualified auditor's opinion, meaning that the consolidated financial statements give a true and fair view of the Group's financial position, the results of its operations and cash flows for the period under consideration. In addition, an unqualified report suggests that the Group meets the assumption of a going concern. Since 2009, North Media has used Deloitte as their auditors.

4.2 Accounting policies

In 2002 the European Union agreed that from 1 January 2005 International Accounting Standards / International Financial Reporting Standards would apply for the consolidated accounts of the EU listed companies[53]. Consequently, North Media's consolidated financial statements for the period under consideration (2009 – 2013) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish

[52] Copeland; Koller; Murrin, Valuation Measuring and Managing the Value of Companies (2nd Edition)
[53] http://ec.europa.eu/internal_market/accounting/legal_framework/ias_regulation/index_en.htm

disclosure requirements for listed companies, and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

4.3 Reformulated financial statements

In order to perform a financial analysis, the financial statements are reformulated in order to set up a form that reflects the business activities in order to find out the sources of the profitability that is reported in the financial statements (Penman). Reformulation leads to the separation of operating activities, which create value from financing activities, which normally show how operating activities are being financed (Penman). Appendices 1-3 and show the reformulated owner's equity, balance sheet, income statement and cash flow statement.

4.3.1 Reformulated owner's equity

The purpose of reformulating owner's equity is to separate the items related to transactions with owners (net dividend) from comprehensive income. Transaction with owners includes capital injection, dividends and share repurchase. Comprehensive income is comprised of items recognized directly in owner's equity without being part of the income statement. These items include translation adjustments, fair value adjustment of hedging instruments and forward contracts. These entries are called "dirty - surplus accounting" (Sørensen 158).

Table 4.1: Reformulated statement of owner's equity

In DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Equity 1 January	605	564	487	510	492
Transactions with common shareholders	-48	-149	-271	-81	1
Dirty surplus	0	-7	1	-2	4
Net profit for the year	7	79	293	65	9
Total comprehensive income	7	72	294	63	13
Equity at 31 December	**564**	**487**	**510**	**492**	**506**

Source: Own creation based on annual reports 2009-2013.

4.3.2 Reformulated balance sheet

The reformulated balance sheet is attached as appendix 2. The balance sheet is reformulated in order to separate operating activities from financing activities (Sørensen 180). For the purpose of valuation of capital, it is required to reformulate the balance sheet in order to partly quantify the amount of capital invested in operating activities (Net Operating Activities (NOA)) and partly to determine the company's net debt (Net Financial Obligations (NFO)). NOA is calculated as [Operating assets – Operating liabilities], while NFO is calculated as [Financial liabilities –

Financial assets]. In addition, it is necessary to separate core-operating assets from non-core operating assets, as these items are not part and parcel of the value creation process.

Figure 4.2 Reformulated balance sheet

In DKK million	2009	2010	2011	2012	2013
Operating Assets (OA)	653	620	595	636	716
Operating Liabilities (OL)	135	174	169	157	179
Net Operating Assets (NOA)	518	446	426	479	537
Financial Assets (FA)	- 150	-142	-274	-229	-200
Financial Liabilities (FL)	94	90	176	196	214
Net Financial Obligations (NFO)	- 56	- 52	- 98	- 33	14
Minority Interests (MI)	9	12	13	19	15
Common Shareholders' Equity (CSE)	565	486	511	493	508

Source: own creation

Operating cash

Cash is divided into operating cash and excess cash. There are different methods of estimating operating cash. There is no information given in the financial statements, therefore it has been estimated that operating cash comprises 0,5% of net turnover (Sørensen 184). Operating cash is classified as operating assets whereas excess cash is classified as financial assets.

Non-core assets

Investment in associates, other securities and investments and assets held for sale are classified as non-core operating assets as these items are not part and parcel of the value creation process.

4.3.3 Reformulated statement of income statement

The purpose of reformulating the income statement is to shed light on profit creation from the company's operating and financial activities. This is achieved by bringing the total comprehensive income by including the items registered direct into equity without being part of the statement of income. The total comprehensive income is then separated from operating activities, and income from financing activities. With respect to operating income, it is further divided into 'operating income from sales' and 'other operating profit', with the former showing the value creation from dealing with customers.

Since all profit components have tax effects, then concession for allocation of the total tax expenses has been made. In addition, profit of disposal of subsidiaries and profit from discontinued activities have been classified as 'other operating profit' because they are special items and have nothing to do with core activities.

Figure 4.3 Reformulated income statement

In DKK million	2009	2010	2011	2012	2013
Net turnover	1,029	1,139	1,212	1,105	1,062
Operating profit from sales (after tax)	7	92	120	75	43
Other operating profit (after tax)	9	-16	186	-5	-17
Total operating profit	16	76	306	70	26
Net financial expenses	-5	3	-3	4	-6
Comprehensive income before minority interest	11	79	303	74	20
Minority interest	-4	-7	-8	-11	-7
Comprehensive income to common shareholders	7	72	295	63	13

Source: own creation

4.3.4 Reformulated statement of cash flow

The purpose of reformulating the statement of cash flow is to determine free cash flow (FCF) arising from operating activities and investing activities. FCF is calculated as the difference between reported cash flow from operating activities and reported cash flow from investing activities. The obtained free cash flow (FCF) is the focus of the DCF model, which will be used to determine the future value of North Media. In addition, FCF determines the company’s ability to service debt and make payment to owners (Sørensen 228).

Figure 4.4 Reformulated cash flow statement

In DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Cash flow from operating activities					
Reported cash flow from operating activities	75	146	154	90	80
Net financial expenses after tax	5	- 3	3	- 4	6
	80	**143**	**157**	**86**	**86**
Cash flow from investing activities					
Reported cash flow from investing activities	124	- 43	23	- 21	- 46
Free cash flow	**204**	**100**	**180**	**65**	**40**
Cash flow from financing activities					
Debt financing					
Additions of non-current liabilities	-	-	- 77	-	-
Repayment of non-current liabilities	3	4	4	5	6
Net interest expenses after tax	5	-3	3	-4	6
Investment in cash and cash equivalents	145	- 56	- 28	- 34	17
	153	**- 55**	**- 98**	**- 33**	**29**
Equity financing					
Dividend to minority shareholders	-	4	7	16	11
Dividend to shareholders	50	129	275	59	-
Investment in treasury shares	1	22	-	-	-
Sales of investment in treasury shares	-	-	- 4	23	-
	51	155	278	98	11
Free cash flow	**204**	**100**	**180**	**65**	**40**

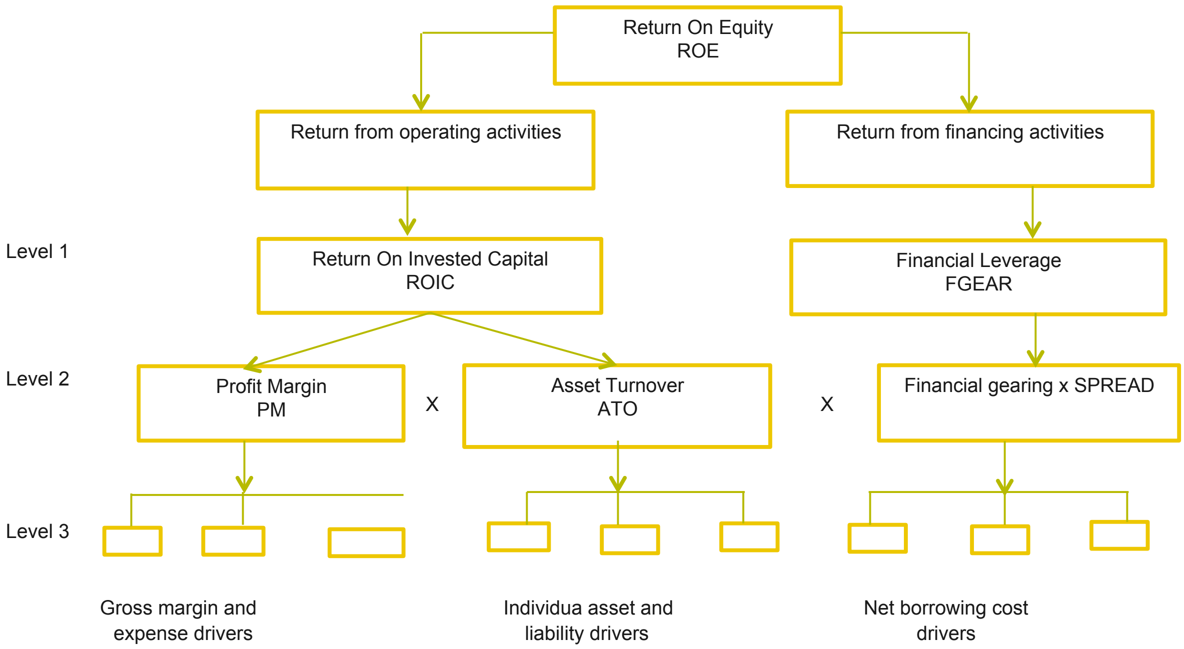
Source: own creation based on 2009 – 2013 annual reports

4.4 Profitability analysis

Profitability analysis will be done in order to provide a comprehensive measure of North Media's profitability with the aim of identifying the source of value generation[54]. The analysis will take as a point of departure, Return on common shareholders' equity (ROCE), which measures the company's ability to create shareholder value. Thereafter, the underlying financial value drivers will be analysed based on three levels as shown in figure 4.5 below based on the DuPont model. The first level analysis focuses on operating activities where financial activities are separated from financial leverage. The second level focuses on the analysis of ROIC where the two drivers PM and ATO will be covered in detail. The third level focuses on the analysis of PM drivers.

[54] Penman, Stephen H., Financial Statement Analysis and Security Valuation 364.

Figure 4.5 The analysis of profitability



Source: Penman, Stephen H. (5th Edition), Financial Statement Analysis and Security Valuation page 366.

4.4.1 Return On Equity (ROCE)

Return on equity (ROCE) is calculated by dividing the comprehensive income by common shareholder's equity. The ratio measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested[55]. ROCE can also be calculated by using the following relationship:

ROCE = ROIC + (FGEAR * SPREAD) * MI

Therefore, ROCE is determined by three factors:

1. Operating profitability i.e. Return on invested capital (ROIC) = OI/NOA
2. Financial leverage i.e. Financial gearing (FGEAR) = NFO/CSE
3. Operating spread i.e. SPREAD = ROIC - NBC

4.4.2 Decomposition of ROCE

ROCE = ROIC + (FGEAR * SPREAD) * MI

Figure 4.6 Decomposition of ROCE

[55] http://www.investopedia.com/terms/r/returnonequity.asp

	2009	2010	2011	2012	2013
ROIC	2,4%	15,8%	70,2%	15,5%	5,1%
FGEAR (MI)	0,007	-0,025	-0,037	-0,032	-0,005
SPREAD	-21,9%	10,2%	74,2%	9,8%	67,7%
MI	0,65	0,93	1,00	0,88	0,67
ROCE	**1,5%**	**14,5%**	**67,4%**	**13,5%**	**3,2%**

Source: own creation based on reformulated 2009 – 2013 annual reports

As seen from figure 4.6 above, ROCE is influenced by both ROIC, FGEAR and SPREAD. ROCE increased between 2009 and 2011 before decreasing in 2012 and 2013. ROCE follows the same trend as ROIC. The fact that FGEAR is negative between 2010 and 2013; means that ROCE is entirely influenced by ROIC leading to the conclusion that the return to shareholders is entirely dependent on operating activities and not financing activities. In 2009, ROCE is impacted by negative SPREAD. However, going forward, ROCE is positively impacted by positive SPREAD meaning that North Media has been able to generate positive return from debt financing. SPREAD is covered in detail below.

4.4.2.1 Financial Leverage (FGEAR)

The ratio explains the relationship between net financial obligations (net interest bearing debt) and shareholders' equity. A ratio > 1 means that the company is geared and vice versa.

$$\text{FGEAR} = \frac{\text{Average NFL}}{\text{Average shareholder's equity}}$$

Figure 4.7 FGEAR

	2009	2010	2011	2012	2013
FGEAR (MI)	0,007	-0,025	-0,037	-0,032	-0,005

Source: own creation based on reformulated 2009 – 2013 annual reports

Figure 4.7 show that FGEAR is < 1 during the entire period meaning that North Media is ungeared. Looking at the reformulated balance sheet in appendix 2, it can be seen that Financial Assets > Financial Liabilities during 2009 and 2012 leading to negative SPREAD during 2009 – 2013. Only in 2013 are Financial Liabilities > Financial Assets by DKK 14 million. The increase in financial obligations between 2010 and 2012 was more than offset by an increase in financial assets (cash and securities). Consequently, North Media continued to record negative FGEAR. Negative FGEAR contributes negatively to ROCE as the return (and the risk) on financial assets is normally lower than returns on operating activities. In 2009, ROCE at 1,5% significantly impacted negative SPREAD (21,9%). The highest SPREAD in 2011 has a significant impact on ROCE, which reached 67,8%. Going forward (2012 – 2013) positive SPREAD means improved ROCE.

4.4.2.2 Net Borrowing Costs (NBC)

The ratio measures the relationship between net interest expenses and interest bearing debt.

$$NBC = \frac{\text{NFEAT}}{\text{Average NFL}}$$

Where

NFEAT = Net Financial Expenses After Tax

NFL = Net Financial Obligations

Figure 4.8: Net Borrowing Costs

	2009	2010	2011	2012	2013
NBC	24,4%	5,5%	-4,0%	5,7%	-62,6%

Source: own creation based on reformulated 2009 – 2013 annual reports

As seen in figure 4.8 above, NBC shows a decreasing trend due to a decrease in financial expenses caused by a decrease in financial liabilities. Interest expenses were positive in 2011, which is explained by a significant increase in interest bearing debts and hence financial expenses.

4.4.2.3 SPREAD

SPREAD is the difference between ROIC and NBC i.e. SPREAD = ROIC - NBC

Figure 4.9: SPREAD

	2009	2010	2011	2012	2013
SPREAD	-21,9%	10,2%	74,2%	9,8%	67,7%

Source: own creation based on reformulated 2009 – 2013 annual reports

SPREAD shows an increasing trend between 2009 and 2011, which is the same trend as ROIC. The decrease in 2012 is explained by a decrease in ROIC and an increase in net interest expenses. Positive SPREAD in 2010-2013 lead to an improvement in ROCE.

4.4.3 Return On Invested Capital (ROIC)

ROIC measures how profitable the company is able to utilize the resources (net assets) at its disposal. It is calculated as:

$$\text{ROIC} = \frac{NOPAT}{\text{NOA}}$$

Where

NOPAT = Net Operating Profit After Tax

NOA = Net Operating Assets (average).

NOA[56] is obtained by subtracting Average Operating Liabilities from Average Operating Assets.

4.4.1 Decomposition of ROIC

ROIC is driven by two components i.e. Profit Margin (PM) and Asset Turnover (ATO).

PM is calculated as NOPAT/Turnover whereas ATO is calculated as Turnover /NOA.

When NOPAT and NOA are related to turnover, the following equation[57] is obtained.

$$\frac{NOPAT}{\text{NOA}} = \frac{NOPAT}{\text{Turnover}} X \frac{Turnover}{\text{NOA}}$$

The two drivers will be examined before analysing ROIC.

Figure 4.10 ROIC drivers

ROIC Drivers	**2009**	**2010**	**2011**	**2012**	**2013**
PM	1,5%	6,7%	25,3%	6,4%	2,4%
AT	1,618	2,363	2,778	2,443	2,091
ROIC	**2,4%**	**15,8%**	**70,2%**	**15,5%**	**5,1%**

Source: own creation based on reformulated 2009 – 2013 annual reports

4.4.1.1 Profit Margin (PM)

Profit margin shows the relationship between earnings and costs in a company. The ratio shows the percentage of sales that has been turned into profit.

[56] Calculations are based on average balance sheet amounts

[57] Copeland; Koller; Murrin, Valuation: Measuring and Managing the Value of Companies 167.

Figure 4.11 PM drivers

PM drivers (%)	2009	2010	2011	2012	2013
Gross margin	43,0%	47,1%	47,9%	48,0%	47,1%
Staff costs	-26,5%	-23,4%	-21,7%	-25,2%	-25,8%
Other costs	-9,7%	-10,4%	-10,2%	-11,3%	-12,8%
Amortisation and depreciation	-5,3%	-4,0%	-2,7%	-3,0%	-3,4%
PM sales (before tax)	1,4%	9,1%	13,2%	8,4%	5,1%
Tax	-0,7%	-1,1%	-3,3%	-1,6%	-1,0%
PM (sales)	0,7%	8,0%	9,9%	6,8%	4,1%
Other items (after tax)	0,8%	-1,4%	15,4%	-0,5%	-1,6%
PM	**1,5%**	**6,7%**	**25,3%**	**6,4%**	**2,4%**

Source: own creation based on reformulated 2009 – 2013 annual reports

As seen in figure 4.10 above, the PM shows a mixed trend. It increased between 2009 and 2011 and it decreased between 2011 and 2013.

PM increased from 1,5% in 2009 to 6,7% in 2010. The increase is attributed to an increase in turnover (up by 10,7% y/) caused by an increase in turnover from print. In addition, PM was impacted by a decrease in direct expenses and direct staff costs which made up 52,9% of turnover vs. 57% in 2010 and other costs (38% of turnover (2010: 42% of turnover)). Finally, PM was positively impacted by DKK 17 million related to share of profits from associates (2010: DKK million 2). The significant increase in PM in 2011 is explained by an increase in turnover (up by 6,3% y/y), which was caused by an increase in turnover from print and one-off items of DKK 182 million, related to profit of disposal of subsidiaries. Adjusted for this item, PM was realised at 10,2%. In addition, PM was helped by the fact that despite the increase in turnover, costs were roughly at 2010 level. In 2012, the ratio decreased to 6,4% due to a decrease in turnover (down by 8,8 y/y) whereas other costs made up 40%% of turnover (2011: 35%. In addition, 2011 PM was impacted by one-offs as explained above. The decrease in PM in 2013 is due to decrease in turnover (down by 3,9% y/y) caused by a decrease in turnover from print, an increase in total costs, which made up 94,9% of turnover (2012: 91,6%).

Figure 4.12 Trend analysis

In DKK million	2009	2010	2011	2012	2013
Print	957	1,070	1,147	1,018	971
Online	71	69	65	87	91
Group Turnover	1,028	1,139	1,212	1,105	1,062

Source: own creation based on 2009 – 2013 annual reports

Looking at turnover, the trend analysis shows that turnover increased to index 111% in 2009 and 118% in 2010. The increase is attributed to an increase in share of revenue realised in the print segment. The newspaper and distribution business units recorded the largest increase (up by 12% y/y) whereas turnover in the online business segment decreased by 3%. 2011 was an upturn for North Media as turnover increased to index 111% mainly due to a 7% increase in print before decreasing to index 107% and 103 in 2012 and 2013 respectively.

4.4.1.2 Asset Turnover (ATO)

Asset Turnover (ATO) show how much capital has been tied in a company and the value expresses how much sales have been generated out of invested capital.

$$\text{ATO} = \frac{\text{Turnover}}{\text{NOA}}$$

Figure 4.13: ATO drivers

ATO drivers (inverse)	2009	2010	2011	2012	2013
Intangibles	0,108	0,072	0,051	0,070	0,130
Tangible fixed assets	0,448	0,347	0,308	0,328	0,347
Other non-current assets	0,015	0,009	0,008	0,018	0,024
Inventories	0,001	0,000	0,000	0,000	0,000
Trade receivables	0,072	0,065	0,073	0,086	0,096
Other current assets	0,113	0,081	0,162	0,228	0,190
Operating cash	0,005	0,005	0,005	0,005	0,005
Operating assets turnover	0,763	0,580	0,608	0,736	0,791
Trade payables	-0,034	-0,037	-0,043	-0,049	-0,051
Other operating liabilities	-0,111	-0,099	-0,099	-0,099	-0,107
Operating liabilities turnover	-0,145	-0,136	-0,142	-0,148	-0,158
1/ATO	0,618	0,445	0,466	0,588	0,633
ATO	**1,618**	**2,363**	**2,778**	**2,443**	**2,091**

Source: own creation based on reformulated 2009 – 2013 annual reports

As seen from figure 4.12 above, ATO follows almost the same trend as the PM ratio. The ratio decreased between 2009 and 2010. It increased again in 2011 before increasing between 2011 and 2013. The trend analysis for the period 2009 and 2013 show that turnover indexed 111 in 2010 and 107 in 2011 whereas NOA indexed 86 and 82 respectively. The decrease in NOA in 2010 is driven by a decrease in goodwill and other tangibles.

Looking at the balance sheet, NOA has shown a decreasing trend between 2009 and 2011 driven by a decrease in intangibles, land and buildings, plant and machinery and operating equipment, fixtures and fittings.

The ratio shows North Media's ability to generate revenue. The company generated 1,62 kroner for each 1 krone invested in 2009, increasing to 2,8 kroner in 2011. The increase is attributed to an increase in turnover, which indexed 118 in 2011 compared to 2009. This indicates that North Media was successful at converting invested capital into revenue. In addition, NOA indexed 82% in 2011. The ratio reached 2.1 in 2013, showing a decreasing trend from a high level of 2.8 realised in 2011. Despite the decrease, the ratio is very stable compared to the PM ratio, which has fluctuated significantly during the same period. The high ratio could also signal that North Media operates in a less capital-intensive industry.

Return on Invested Capital (ROIC)

Figure 4.14: ROIC

	2009	**2010**	**2011**	**2012**	**2013**
ROIC	2,4%	15,8%	70,2%	15,5%	5,1%

Source: own creation based on reformulated 2009 – 2013 annual reports

As seen from figure 4.14 above, ROIC follows the same pattern as the PM ratio. The highest ROIC was realized in 2011 which is the same year that the highest PM and ATO were realised. The increase in 2010 is only explained by an increase in PM from 1,5% to 6,7% as ATO decreased from 2,23 to 2,13. The increase in 2011 is due to an increase in both OM and ATO. Please note that, it was in 2011 where both PM, ATO and ROIC reached the highest levels. The decrease in 2012 and 2013 is caused by a decrease in PM and ATO.

4.5 Conclusion on profitability analysis

The above analysis shows North Media's financial performance during the last five years has been of a mixed trend. Profitability increased during 2009 and 2011 driven by increasing turnover and improved efficiency. The decrease in 2012 and 2013 is attributed to a decrease in turnover and the fact that costs did not decrease at the same level as the decrease in turnover. The ratio analysis shows that the return to shareholders is entirely dependent on operating activities and not financing activities. In addition, the ratios show that North Media has been successful at converting invested capital into revenue with the ATO averaging 2.3 during the period under consideration. Finally, the analysis shows that North Media is an ungeared company as financial expenses have decreased significantly during the analysis period supported by a decrease in operating liabilities. In fact, the company has more financial assets than liabilities during the analysis period with the exception of 2014.

4.6 Risk analysis

Risk analysis is conducted in order to find out the types of risks that impact North Media in the course of its operations. In addition, the analysis will assist in the assessment of the future budget and the risks inherited in the course of operations, which may help in assessing the uncertainty regarding the future earnings. Two types of risks will be covered under the analysis namely operational and financial risks.

4.6.1 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events[58]. It can also include other classes of risk, such as fraud, legal risks, physical or environmental risks. Due to lack of information, in this instance, only risks from external events will be analysed.

External risk

External risks are risks caused by external factors, which affect North Media and are out of the control of the company. As discussed in the PESTEL analysis above, North Media is highly impacted by political decisions, especially the Media Agreement passed in the Danish parliament every fourth year. The current media agreement applicable until 2014 is considered to be biased towards DR and TV 2. Consequently, fewer funds have been allocated to newspapers. In addition, competition authorities have the final word as to whether a proposed acquisition should be passed or not. Taking into account that North Media operates in a mature industry with low organic growth potentials, decisions by the Danish Competition Authority to block an acquisition may have a huge impact. In addition, an increase in the price of raw materials may have a substantial effect on earnings if the cost cannot be passed on to consumers. In recent years, raw material prices have fluctuated significantly leading to lower margins.

[58] International Convergence of Capital Measurement and Capital Standards page 144

Strategic risk

These are branch specific risks related to the media industry. These risks have been analysed under the Porters Five Forces in chapter 3. Competition in the free newspaper segment is intense due to the fact that each player strives to become the largest in order to attract more ads and hence cover operating expenses. In addition, the bargaining power of buyers is high due to the fact that advertisers can switch between different newspapers without incurring extra costs. The risk is mitigated by the fact that North Media delivers its newspapers to 2.2 million households in Denmark. In addition, the newspaper can be printed to meet the preferences of a specific region. Finally, the duopolistic nature of the Distribution market means that North Media and Post Danmark will remain the largest players in the segment.

Operational risk

Operational risks are linked to a specific company's internal risks that can impact the company's performance and earnings. As seen from the SWOT analysis above, the major risks are associated with high dependence on advertising revenue. Søndagsavisen and other local newspapers are free of charge and therefore depend highly on advertising revenue. The current economic slowdown has had a major impact on marketing budgets and hence the number of adverts. Consequently, North Media's turnover and earnings have been under pressure in recent years.

Another way to assess the operational risks is to evaluate the relationship between fixed and variable costs. This can provide an indication as to whether the company is able to adapt to a changing market with altered activity and thus assess the operational gearing. Unfortunately, North Media's annual reports are not categorised according to variable and fixed costs. However, looking at PM, it is clear that North Media has a high cost structure due to the fact that, excluding one-off items, PM is as low as 4.8% during 2009-2013. High cost structure can be associated to the fact that the Distribution segment is labour intensive, which makes it difficult to reduce operating costs in line with decreasing turnover. In addition, the fact that 97% of North Media activities are placed in Denmark, a country known for high costs especially when it comes to salary levels. Higher operation costs puts tremendous pressure on margin in a market characterised by high competition. Despite the fact that North Media controls the entire value chain from when the newspaper is printed to when it reaches the final consumer, it seems that North Media has not benefited from this.

Taking everything into account, the operational risk is assessed as medium to high due to decreasing revenue and high costs structure despite distributing 1.6 million copies a week and owning the largest distribution network than competitors.

4.6.2 Analysis of free cash flow

In order to assess North Media's financial strength, an analysis of free cash flow for 2009-2013 will be conducted. Free cash flow, which is a significant part of the DCF model, is of particular importance as it determines the company's ability to service debt and make payments to shareholders (Sørensen 228).

Figure 4.15 Free cash flow

In DKK million	2009	2010	2011	2012	2013
Reported cash flow from operating activities	80	143	157	86	86
Reported cash flow from investing activities	124	- 43	23	- 21	- 46
Free cash flow	**204**	**100**	**180**	**65**	**40**

Source: own creation based on reformulated 2009 – 2013 annual reports

Figure 4.15 show that North Media is financially healthy as it has not only generated positive cash flow from operations and during 2009-2013 but also financed its investing activities. Further balance sheet analysis shows that North Media has managed to decrease its interest-bearing debt, leading to deleverage and hence reduced financial risk.
This is again documented by the profitability analysis in chapter 4 where it was revealed that North Media is an ungeared company. The question here is, should North Media be geared in order to invest in new products/markets?

Figure 4.16 FGEAR

	2009	2010	2011	2012	2013
FGEAR (MI)	0,007	-0,025	-0,037	-0,032	-0,005

Source: own creation based on reformulated 2009 – 2013 annual reports

Financial gearing can be analysed using FGEAR and SPREAD figure analysed in chapter 4. FGEAR shows the difference between how much is internally financed via equity and, versus how much is externally financed. In Figure 4.16 above, FGEAR for 2013 is -0.5% showing that North Media is internally funded. As seen from the figure below, North Media has successfully reduced the IBD from 2009 where 0.6% was externally funded to entirely being funded through internal sources. A further analysis can be done in order to compare FGEAR with SPREAD.

Figure 4.17 SPREAD

	2009	2010	2011	2012	2013
SPREAD	-21,9%	10,2%	74,2%	9,8%	67,7%

Source: own creation based on reformulated 2009 – 2013 annual reports

The negative SPREAD in 2009 had a negative impact on ROIC and hence ROCE. The positive SPREAD in 1010-2013 lead to an increase in ROCI and hence ROCE. Consequently, North Media can be geared further by investing in new markets/products as long as SPREAD is positive.

The above can therefore leads us to determine whether the financial situation of North Media is solid or not, and whether there is liquidity risk. Based on the free cash flow and leverage, it can be concluded that there is a solid foundation for North Media to stand against several unforeseen events that may occur in the market and that they have an urgency that requires that they invest more to increase leverage.

4.6.3 Risk conclusion

The overall operational risk is assessed as high; whereas the financial risk is assessed as low. North Media has managed to balance the risks, which is the goal for all companies. The fact that North Media has managed to maintain a low financial risk is a security buffer for the future and assurance that the company has the financial resources to withstand any unforeseen incidences. However, low financial risk is offset by medium to high operational risk.

4.7 Trend analysis

A trend analysis will be conducted in order to spot a pattern or trend of how different items/posts in North Media's financial statements have developed over the past five years, seen in relationship to a basis year (2009). The analysis will enable a prediction of future development based on past performance.

Figure 4.18 Income statement trend analysis

In DKK million	Base year **2009 = 100**	**2010**	**2011**	**2012**	**2013**
Net turnover	1029	111%	118%	107%	103%
Direct expenses	-367	109%	116%	102%	97%
Direct staff costs	-220	92%	93%	91%	93%
Gross margin	442	121%	131%	120%	113%
Staff costs	-273	98%	96%	102%	100%
Other costs	-100	119%	124%	125%	136%
Operating profit from sales before tax	14	743%	1143%	664%	386%
Other operating profit after tax	9	-176%	-482%	-247%	-129%
Operating profit after tax	16	490%	1974%	453%	168%
Comprehensive income to common shareholders	7	1029%	4214%	900%	186%

Source: own creation based on reformulated 2009 – 2013 annual reports

As seen from the figure/table above, revenue/turnover is below the base year with the exception of 2011 where revenue is above the base year. The decrease in revenue/turnover is attributed to the financial crisis, which led to a significant decline in both advertising revenue and volume of distributed printed matter. The increase in revenue/turnover in 2011 is explained by a recovery in the advert market, which led to an increase in the printed matter activities.

The gross margin reveals an interesting pattern. With the exception of 2009, gross margin is higher than the base year despite the decrease in revenue/turnover. This is due to the fact that North Media has managed to reduce direct expenses and direct staff costs in order to reflect decreasing revenue/turnover. In addition, higher gross margin can be explained by changes in the product mix with the sale of online activities which command higher margins increasing, compared to the traditional printed matter and Distribution activities which are labour intensive and hence more costly. Other operating costs were below base year in 2009 and 2010, and in line with the base year in 2011 and 2012 showing an increasing trend.

Despite mixed trend in revenue/turnover, operating profit from sales before tax has been higher than the base year in all years, mainly due to lower direct staff costs and depreciation and amortisation expenses. However, comprehensive income is lower than in the base year mainly due to the fact that performance in 2008 was affected by a one off item of DKK 299 million related to profit from disposal of subsidiaries. Adjusted for this, comprehensive income is higher than in the base year.

Figure 4.19 Balance sheet trend analysis

In DKK million	Base year **2009 = 100**	**2010**	**2011**	**2012**	**2013**
Goodwill	43	90,7%	90,7%	148,8%	230,2%
Other intangibles	24	83,3%	79,2%	95,8%	333,3%
Tangible fixed assets	408	93,9%	89,2%	88,5%	91,9%
Inventories	0	N/A	N/A	N/A	N/A
Trade receivables	65	129,2%	141,5%	152,3%	160,0%
Trade payables	36	133,3%	155,6%	144,4%	158,3%
Operating liabilities	135	128,9%	125,2%	116,3%	132,6%
Net operating assets	518	86,0%	82,2%	92,4%	103,7%
Net financial obligations	-56	93,6%	175,4%	59,9%	-25,6%
Share capital	574	86,8%	91,3%	89,2%	91,1%
Minority interest	9	133,3%	144,4%	211,1%	166,7%
Common shareholders' equity	565	86,0%	90,4%	87,3%	89,9%

Source: own creation based on reformulated balance sheet for 2009 – 2013

Looking at the balance sheet, NOA has developed slower than revenue/turnover. This could mean that North Media has been successful at utilising capital. The decrease in plant and equipment, operating equipment, fixtures and fittings can be explained by the fact that North Media decided to de-invest in an attempt to adjust the business to the decreasing capacity/demand in the industry.

Trade payables show an interesting trend as it has increased during the period under consideration; whereas revenue/turnover has decreased during the same period. This is a positive trend as it improves the working capital by reducing the funds tied up in inventories.
In addition, NFL has decreased during the period under consideration with the exception of 2011, where NFL was higher than in the base year. This is explained by a significant increase in cash holdings and securities. Finally, common shareholders equity has decreased during the same period and now accounts for only 81% in 2012 explained by a decrease in retained earnings. Finally, interest-bearing debt has increased during the same period paving a way for increased gearing.

5. SWOT analysis

After having identified the factors that can affect North Media in the external and internal environment, SWOT analysis will be used to summarize the identified issues and listed according to whether they create an opportunity or pose a threat for North Media. This will include whether they should be characterized as internal or external conditions respectively. In addition to the SWOT analysis a deeper analysis of the various factors which are relevant to the analysis will be considered. This is done to ensure a better understanding and give insight into the different conditions.

Figure 5.1 SWOT analysis

Strengths	Weaknesses
1.6 million copies a week	Decreasing revenue
Entire value chain	
Large distribution network	High dependence on Ad revenue
Diversified business	High cost structure
Ressource sharing	
Opportunities	**Threates**
Digitisation	Economic slowdown
Industry consolidation	Advertising tax
Introduction of “click fees	Rising raw material prices (paper)
NoAds+	Environmental issues
Wider geographical coverage	Increasing competition
	No ads please

Source: own creation based on chapters 3 and 4 analysis

5.1 Strengths

1,6 copies a week

North Media newspapers have more than 1,6 million readers a week, making them the most widely read newspapers in Denmark. This is a key strength because there exists no close competition. In addition, this is a very key argument in getting more customers to advertise with North Media due to the wide readership, as more people will see their ads. Furthermore, North Media has more than 10 local newspapers, which caters the need for customers to place ads targeted at a specific group.

Entire value chain

Unlike its competitors, North Media prints and distributes its own newspapers, which makes it possible to control the entire value chain. This makes it possible to reduce operating costs (distribution) and thus improve margins.

Large distribution network

North Media has approx. 12,000 distributors managing approx. 16,000 routes for distributing printed matter, making it the second largest distributor to Post Danmark. In addition, North Media distributes competitor's newspapers and printed matters.

Diversified business

North Media operates within three business units (newspapers, online and distribution) making its revenue less sensitive to fluctuations in a single business segment.

Resource sharing

North Media could benefit from sharing editorial staff and other resources amongst their different on- and offline products.

5.2 Weaknesses

Decreasing revenue

Over the last few years, North Media has experienced a decrease in revenue especially in the print business (newspapers and distribution). The decrease has not been replaced.

High dependence on ads revenue

North Media newspapers are free newspapers and revenue depends on ads. During the financial crisis, the number of ads has decreased significantly as customers have cut their marketing budgets to reflect the decreasing demand in their products/services.

High cost structure

97% of North Media activities are conducted in Denmark, a country known for high costs especially when it comes to salary levels. Higher operation costs put increased pressure on margins in a matured and highly competitive market. However, salary levels have remained low during the financial crisis.

5.3 Opportunities

Digitalisation

There is a general tendency for people shifting from the traditional media (printed) to digital media. Therefore, there are plenty of opportunities to invest in the digital media, as more people will tend to read and watch news through their smart phones, tablets or computers.

Industry consolidation

The newspaper market is a matured market with low growth potential. However, there are consolidation opportunities, and North Media has the possibility to participate actively in the industry consolidation.

Click fees

The introduction of "click fees" is seen as an opportunity for increasing revenue if properly designed. However, consumers' willingness to pay for online news is still low.

NoAds+

The launch of NoAds+ is seen as an opportunity to offer an even efficient marketing channel with fewer retail leaflets, but very popular among consumers and may attract more advertisers.

Wider geographical coverage

Online news distribution provides increased opportunities for reaching readers outside the newspaper's traditional geographical boundaries or for reaching new groups of readers, such as younger people.

5.4 Threats

Economic slowdown

The media industry is sensitive to GDP trends. The current economic slowdown has led to a decrease in ads, which are a significant source of income in the industry.

Advertising tax

The introduction of advertising tax will have a negative impact on revenue and earnings, as the costs are not expected to be passed on to final consumers. However, the tax has not been introduced as yet, it is pending EU decision.

Rising raw material prices

Paper and other materials are used to produce newspapers. In recent years, raw material prices have surged to new high levels. This could lead to an increase in operating costs if the costs cannot be passed on the final consumers. Under the current market conditions, it is difficult to see how North Media can charge higher prices to consumers (advertisers).

Environmental issues

There is a high focus on the environment globally. Consequently, North Media is exposed to tough rules and regulations aimed at protection of trees and related products. Placing its activities in Denmark increases the threat, as Denmark is one of the leading countries in the world when it comes to environmental protection.

Increasing competition

Newspapers are also confronted with more competition from companies outside the traditional newspaper publishing business, for instance from broadcasters' online news services, from national or local online only news providers, from (international) internet and software companies which offer news services such as AOL, MSN, Google, Facebook and Yahoo and from platforms for user generated news.

No ads please

The increasing number of Danish households making their mailboxes "no ads please" will have a negative impact on the amount of distributed printed matters and revenue. However, Denmark has the lowest number of "no ads please" households in Scandinavia.

6. Budgeting

This chapter will draw up a budget for the next five years (2014-2018) taking as a point of departure the strategic analysis, company analysis (chapter 3) and financial analysis (chapter 4); with the main focus on the financial value drivers. A budget control will be performed at the end of the budget period in order to determine if the budget assumptions are realistic compared to historical performance. The budget will form a basis for estimation of North Media's value of equity in chapter 7. The valuation will be followed by a sensitivity analysis in order to see how changes in the basic assumption will have an effect on the value of equity.

6.1 Budget period

Budgeting is not an easy task and is associated with a number of uncertainties when it comes to forecasting the future development of North Media. In addition, North Media is a mature company operating in a mature market where growth opportunities are limited cf. Chapter 3. Furthermore, uncertainty is further increased by the fact that outsiders do not have access to the same information as an insider. Consequently, the budget period has been limited to five years i.e. 2014 - 2018. After this period, it is assumed the budgeting will reach a "steady state" meaning that growth in the subsequent years will be constant the so-called terminal period (2019).

A line budget will not be pursed due to lack of insider information. Instead, budgeting will focus on 1) growth in turnover, 2) asset turnover (ATO) and hence net operating assets (NOA), net working capital (NWC) and net financial obligations (NFO), and 3) profit margins (PM) based on gross margin and/or cost level.

Budget period: 2014-2018
Terminal period: 2019

6.2 Turnover Growth

The starting point in preparing sales growth is preparing a sales budget, which requires a thorough understanding of the market development in which the company operates (Sørensen 321). Therefore, conclusions drawn on the PESTEL analysis, Porters Five Forces and Company analysis in chapter 3 will be used to budget the future sales development in the Media industry.

The PESTEL analysis in chapter 3 concluded that the media industry is affected by GDP trends, and the current economic slowdown will continue to have an impact on the industry's revenue and earnings. Hence, A GDP growth of around 1.5-2% is forecasted in Denmark during the period under consideration[59]. In addition, changing consumer preferences will impact the print business, as the young generation (under 45 years) prefer online news contents to print; leaving the print business as an isolated segment. Technological development will have both a positive and negative impact on the industry, whereas the introduction of advertising tax will have a negative impact on earnings.

The Porter's five forces concluded that competition in the industry is intense partly due to the high bargaining power of advertisers; and growth opportunities are low due to the mature nature of the industry. In addition, entry barriers are considered low due to technological development. Hence, margins are expected to come under even more pressure during the budget period. However, the industry provides some consolidation opportunities, which may help pick up some of the slack.

The company analysis showed that revenue from online segment has increased compared to print segment. In 2009, online revenue made up 7% of turnover increasing to 9% in 2013. Consequently, I have budgeted with a contribution of share of revenue from the online segment of 10% in 2014 increasing to 14% in 2018 onwards.

In connection with presentation of FY 2013 annual report, North Media gave a guidance of turnover growth of 2% in 2014 driven by organic growth and add-ons acquisitions. However, based on conclusions in chapter 3, projections about GDP growth in 2013-2015[60] and the fact that turnover decreased by 4% in 2013 vs. 2012, an assessment has been made that turnover will not increase by 2%. Therefore, a decrease in turnover of -2% is budgeted in 2014 driven by a decrease in turnover in the print segment (down by 3.5%). The decrease is partly offset by an increase in turnover from online segment (up by 14.4%). In 2015, turnover is budgeted at 2014 level i.e. an increase of 0%. For 2016-2018, a growth of between 1.0%, 1.5% and 2%, which is in line with GDP growth is forecasted. The increase will be driven by recovery in the advert market, which account for the largest part of turnover. In addition, turnover will be boosted by an increase in share of revenue realised from the online segment from the current 10 % in 2014 to 14 % in 2018 onwards. It is worth noting that no acquisition is expected during the budget

[59] http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/text.pdf
[60] Nordea Markets Economic Outlook released on March 10, 2014

period. If North Media makes large or add-on acquisitions; the increase in turnover will differ from the budget. In addition, acquisition will also affect the composition of the print and online segment depending on whether the acquired entity operates within the print or online segment.

All things being considered, the budgeted growth in turnover is expected to be lower than what was realised in 2013 until 2017 where turnover is forecasted at DKK 1,067million. (2013: DKK 1,062miollion).

Figure 6.1 Budgeted sales growth rate

	2014E	2015E	20016E	2017E	2018E	2019T
Print	-3,5%	-1,1%	-0,1%	0,3%	0,8%	2,0%
Online	14,4%	10,0%	10,2%	10,0%	9,8%	2,0%
Total	**-2,0%**	**0,0%**	**1,0%**	**1,5%**	**2,0%**	**2,0%**

Source: own calculations

6.3 Profit Margin (PM)

In order to budget PM, it requires budgeting of gross margin and operating costs as a percentage of turnover. During the last five years (2009-2013), gross margin has ranged between 43% (2009) and 48% (2011 & 2012) with an average of 47%. Gross margin is expected to remain at 47% during the budget period. In addition, operating costs have averaged 42% leading to PM of 5% in 2013. Due to technological development, efficiency is expected to improve during the budget period leading to a decrease in distribution costs. This is an area where further efficiency is likely mainly due to the fact North Media is heading towards digital distribution which is less labour intensive compared to physical distribution. If successful, it will lead to a decrease in labour costs i.e. wages and salaries to distributors. At present, salary levels in Denmark are generally low and no huge pay raises are expected during the budget period.

In addition, due to economic slowdown (GDP expected to growth by 1.5%) and unemployment rate expected to remain > 5% in 2014 (Danmarks Statistk), salary levels are expected to remain low. This is supported by the fact that the recent salary negotiations between employers and workers' unions have not resulted in high increases in salaries. Consequently, salary levels are expected to remain low. As a result, PM is budgeted at 4.6% in 2014 increasing to > 5% during the remainder of the budget period. This is supported by the fact that North Media has historically had lower margin levels, which are expected to remain as such during the budget period. However, it is worth mentioning that increased competition due to worsening market conditions could put high pressure on margins. In addition, PM could be impacted by the introduction of advertising tax if it takes effect within the budget period. But, a PM of 5% is considered reasonable.

Looking deeper into North Media's annual reports for 2009-2013, it is revealed that the largest part of PM comes from the Print segment; with the Online segment contributing negatively due to continued investment in product development and marketing costs.[61] On average, PM from the Online segment is estimated at -3.8% during 2009-2013 with significant improvement in 2013 compared to 2009.

Figure 6.2 Budgeted PMsales after tax

PMsales after tax	2014E	2015E	20016E	2017E	2018E	2019T
Print	5,6%	6,3%	6,7%	7,0%	6,9%	6,9%
Online	-1,7%	-1,8%	-1,7%	-1,6%	-1,2%	-1,2%
Total	**3,9%**	**4,5%**	**5,0%**	**5,4%**	**5,8%**	**5,8%**

Source: own calculations

6.4 Budgeting the effective tax rate

The focus is the current Danish corporate tax rate of 25 %. However, in June 2013, the Danish parliament adopted a reduction of corporate and business tax rate from 25% to 22%. The reduction occurs gradually in the period 2014 to 2016[62]. The tax rates are 24.5% in 2014, 23.5% in 2015 and 22% in 2016 and here after. Consequently, an average tax rate of 23% will be used during the budget period.

Figure 6.3 Budgeted effective tax rate

Effective tax rate (23%)	2014E	2015E	2016E	2017E	2018E	2019T
	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%

Source: own calculations

6.5 Operating income after tax

Based on the above-mentioned budget assumptions, the budget assumes an operating income after tax of DKK 48 million in 2014, which is more than six times the result realised in 2013 (DKK 7 million). Better performance is mainly driven by improved PM from 2.4% in 2013 to

[61] Annual report 2013, page 15
[62] http://www.bdo.dk/nyheder/Pages/Nedsættelse-af-selskabsskatteprocenten-og-udskudt-skat.aspx

4.6% in 2014. For the remainder of the budget period, operating income after tax is budgeted at > DKK 50 million driven by both an increase in turnover and improved efficiency.

Figure 6.4 Budgeted operating income after tax

Amount in DKK million	2014E	2015E	2016E	2017E	2018E	2019T
Operating income after tax	40	46	53	58	63	64

Source: own calculations

6.6 Growth rate in the terminal period

Growth rate in the terminal period needs to reflect the future of the company for as long as it exists (Plenborg and Gruelund 74). In the terminal period, the value drivers are expected to reach a steady state and hence growth in the subsequent years will remain constant. A growth rate of 2% has been budgeted in the terminal period, which corresponds to the Danish economy's long-term GDP forecasts (97% of turnover is realised in Denmark), inflation (in relation to the Danish economy), the Media industry's long-term growth prospects and North Media's own growth estimates.

6.7 Asset Turnover (ATO)

Net Working Capital (NWC) is an important element in budgeting ATO.

Net working capital % of turnover

NWC comprises trade receivables, inventories and trade payables. Investment in these items is closely linked to development in turnover (Sørensen, 325). Therefore, NWC is expected to develop at the same level as turnover. Looking into North Media's balance sheet, it is revealed that NWC has made up approx. 4% of turnover during 2009 - 2013. The fact that turnover is expected to decrease during the first three years of the budget period, ATO is also expected to decrease with the same trend leaving the NWC unchanged at 4% of turnover. From 2017 onwards, ATO will increase in the same proportion as the increase in turnover.

Net operating assets % of turnover

In chapter 4, a relationship between turnover and ATO was analysed and explained. The main issue in budgeting ATO is NOA, which is closely linked to how turnover develops (Sørensen 325). Development in ATO has an impact on NOA and its development. During the last five years, NOA has averaged 44% of turnover. In 2009, NOA made up 50% of turnover decreasing to 35% in 2011 before increasing to 43% and 51% in 2012 and 2013 respectively. It is assumed that NOA will continue to comprise a small % of turnover during the budget period due to the fact that no major investments are expected during the period. Only normal capex related to investment in new technology is budgeted, as North Media works towards increasing the share of revenue from the online segment. Small add-on acquisitions could be pursued.

Figure 6.5 Budgeted ATO

	2014E	2015E	2016E	2017E	2018E	2019T
ATO	1,82	1,82	1,82	1,82	1,82	1,82

Source: own calculations

Net financial obligations % of turnover

During 2009 and 2012, North Media has negative net financial obligations as a percentage of turnover ranging between 3% (2012) and 8% (2011) of turnover. In 2013, net financial obligations made up 1% of turnover. Net financial obligations are budgeted at 4% of turnover equivalent to the average realised during 2009 -2013.

6.8 Budget control

In order to make sure that the budget assumptions are realistic, a budget control comparing the budgeted items to historical figures is needed. History shows that North Media has had a ROIC of 5.1, which has been translated into a PM of 2.4% and ATO of 2.091.

Figure 6.6 Budget control

Budget control	2013A	2014E	2015E	2016E	2017E	2018E	2019T
ROIC	5,1%	7,2%	8,1%	9,1%	9,9%	10,6%	10,6%
PMsales after tax	2,4%	3,9%	4,5%	5,0%	5,4%	5,8%	5,8%
ATO	2,091	1,82	1,82	1,82	1,82	1,82	1,82

Source: own calculations

As seen from the figure above, the budgeted items are better than historical figures at ROIC and PM levels; and lower than historical figures at ATO level. An increase in ROIC in 2014 and 2015 is mainly driven by improved efficiency which leads to a decrease in staff costs and other costs. The increase in ROIC is 2006 onwards is driven by an increase in turnover and a decrease in staff and other costs. Staff costs decreased from 25.2% of turnover to 25% of turnover; whereas other costs decreased from 12% to turnover to 11.5% of turnover. PM follow the same pattern as ROIC due to the same reasons discussed above. ATO is below historical figures during the entire budget period therefore reflecting a decrease in turnover or in other words, North Media is expected to be less efficient at utilizing its assets during the budget period. The budget therefore does not give occasions for further investigation as the improvement in ROIC and PM vs. historical figures is due to operational efficiency whereas the decrease in ATO is impacted by lower growth rate in turnover.

6.9 Weighted Average Cost of Capital (WACC)

The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders, to finance its assets. The WACC is the minimum return that a company must earn on an existing asset base to satisfy its creditors, owners, and other providers of capital, and retain their investment[63].

$$WACC = \frac{MVe}{MVd + MVe} * R_e + \frac{MVd}{MVd + MVe} * Rd$$

Where:

MV_e = Market value of equity

MV_d = Market value of debt

R_e = Owner's required rate of return

R_d = Cost of debt after tax

From the above formula it is seen that WACC takes into account the relative weight of each component of the capital structure i.e. equity and debt.

The market value of equity and net financial liabilities are determined based on the calculation of capital structure. The components of WACC are discussed below.

6.9.1 Capital structure

Capital structure is of particular importance when determining WACC because it has an impact on the determination of owner's required rate of return and cost of debt. Theoretically, capital structure is adjusted continuously to reflect the company's current capital structure. However, this is difficult in practice due to the fact that only a small change in capital structure tend to occur over time. Consequently, a constant capital structure is applied into this thesis. The fact

[63] http://en.wikipedia.org/wiki/Weighted_average_cost_of_capital

that North Media is listed on the stock exchange makes it easier to determine the capital structure.

Figure 6.7 Historical capital structure

	2009	2010	2011	2012	2013
Outstanding shares DKK million	20	20	20	20	20
Share price at 30 December	34,5	36,0	22,8	17,1	16,0
Market value of equity	690	320	320	320	320
Market value of NFO	14	14	14	14	14
Minority interests	15	15	15	15	15
Market value of operations	719	349	349	349	349
Weight of equity (We)	96%	92%	92%	92%	92%
Weight of debt (Wd)	4%	8%	8%	8%	8%

Source: own creation based on reformulated annual reports for 2009 – 2013

As seen from figure 6.5 above, North Media's weight of debt is 8% and weight of equity is 92%. This is supported by the fact that during the last five years (2009 - 2013) the company has reduced its debt considerably. The same trend is expected during the budget period. Thus, the capital structure used is 8% debt, and 92% equity.

6.9.2 Owner's required rate of return (re)

Capital Asset Pricing Model (CAPM) is used to determine owner's required rate of return. The CAPM states that the required return for an investment (re) for a period is determined by a risk free interest rate plus beta (systemic risk) multiplied by market risk premium (Penman 107).

$$R_e = r_f + \beta_e * (r_m - r_f)$$

Where:

r_f = Risk free interest rate

β_e = Beta of the equity (systematic risk on equity)

r_m = Return on market portfolio

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free (rf) rate in the formula, and compensates the investors for placing money in any investment over a period of time. The other part of the formula represents risk, and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market in a period, and the market premium (rm - rf).

6.9.2.1 Risk free interest rate

Theoretically, the risk free interest rate equals the interest rate on a zero-coupon bond, where there is no bankruptcy or re-investment risk, which matches the time horizon on each of the cash flows to be discounted. In practise, it is recommended to use the effective interest rate of a 10-year government as a proxy for the risk free interest rate (Sørensen 51). Consequently, an interest rate of a 10-year Danish government bond will be used in this thesis. As of March 14, 2013, the interest rate is 1.63[64].

6.9.2.2 Beta

The beta for an investment measures the expected sensitivity of its return to the return on the market. That is, it measures how the price of the investment will move as the price of the market moves (Penman 107). Beta value affects the owners' required rate of return and the higher the systematic risk for a particular stock, the higher the owner's required rate of return.

In order to calculate North Media's beta, the beta for comparable companies will be used cf. Damodoran.

Figure 6.8 Beta values for Publishing and Newspapers

No. of firms	Beta	D/E ratio	Tax rate	Unlevered beta	Cash/firm value	
52	1,08	36,82%	13,92%	0,82	6,06%	0,87

Source: Damodoran 2013

North Media's beta can be converted by using:

Levered beta = unlevered beta * (1 + (1 - tax rate) * D/E)

Where D/E = debt / equity.

The marginal tax rate of 25% is used; whereas North Media's capital structure is estimated at 29/71.

Levered beta = 0.82 * (1 + (1 -25%) * 29/71) = 1.28

[64] http://www.statistikbanken.dk/statbank5a/SelectVarVal/saveselections.asp

6.9.2.3 Risk premium

Risk premium is an addition, which investors need for investing in a share/stock relative to investing in a risk free share/stock (government bond (Sørensen 51)). There are different methods for estimating the risk premium, with results from each method differing slightly. One is to compare the historical returns of the stock market and the risk-free investments (government bonds). The second method is a forecast of the expected risk going forward, based on the current stock prices (Plenborg and Gruelund 59). Each method has its own pros and cons. However, it is not the purpose of this paper to go through the different methods. The fact than North Media is a Danish company; requires that historical market risk premium from Denmark is used. According to PwC (2012), the market risk premium in Denmark is 5%, which will be adopted in this thesis.

6.9.2.4 Liquidity premium

A premium that investors will demand when any given security cannot be easily converted into cash, and converted at the fair market value. When the liquidity premium is high, then the asset is said to be illiquid, which will cause prices to fall, and interest rates to rise[65]. The fact that North Media shares are traded on Small Cap Index on the Copenhagen Stock Exchange makes the stock illiquid compared to stocks trading on C20 Index. Consequently, a liquidity premium of 1 % [66] will be needed in order to compensate / encourage investors to purchase North Media's shares instead of shares listed on C20 index.

6.9.2.5 Calculation of CAPM

From the above chapters, the elements required in calculating CAPM have been established.

$$R_e = r_f + \beta_e * (r_m - r_f) + liquiditypremium$$

Re = 1.63% + 1.28% * 5% + 2% = 10.0%

6.9.3 Rate of return of borrowed capital (cost of debt)

Rate of return of borrowed capital is the interest rate the company pays on its debt. The rate is useful for giving an idea as to the overall rate being paid by the company to use debt financing.

[65] http://www.investopedia.com/terms/l/liquiditypremium.asp
[66] Plenborg 2002

The measure can also give investors an idea as to the riskiness of the company compared to others, because riskier companies generally have a higher cost of debt (Investopedia).
Cost of debt depends on the company's probability of default, which in return is determined by the company's credit rating.

Figure 6.9 Damodaran's Interest Coverage Ratio Ratings.

For smaller and riskier firms			
If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
-100000	0,499999	D	12,00%
0,5	0,799999	C	10,50%
0,8	1,249999	CC	9,50%
1,25	1,499999	CCC	8,75%
1,5	1,999999	B-	7,25%
2	2,499999	B	6,50%
2,5	2,999999	B+	5,50%
3	3,499999	BB	4,00%
3,5	3,9999999	BB+	3,00%
4	4,499999	BBB	2,00%
4,5	5,999999	A-	1,30%
6	7,499999	A	1,00%
7,5	9,499999	A+	0,85%
9,5	12,499999	AA	0,70%
12,5	100000	AAA	0,40%

Source: Damodaran (2013)

The above-mentioned ratings are for smaller and riskier companies. The fact that North Media is a rather small company listed on a Small Cap Index, it fits the definition. The above table will be used in determining the company's costs of debt.

From the reformulated income statement:
EBIT[67] = 78.2
Interest expenses (2013) = 11
Interest cover ratio = 7.11 (78.2/11)

The interest coverage ratio indicates that North Media's rating is 'A'; corresponding to a credit risk spread of 1.00%.

$$R_d = r_f + c_r * (1 - T_c)$$

Where

[67] Average EBIT during the last 5 years has been used due to significant fluctuation in EBIT

c_r = Credit spread (risk premium on debt)

Rd = (1.63 + 1.00) * (1-0.25) = 2.0%

6.9.4 Calculation of WACC

$$WACC = \frac{MVe}{MVd + MVe} * R_e + \frac{MVd}{MVd + MVe} * Rd$$

The market value of equity and debt are determined based on the calculation of capital structure, the WACC is calculated as:

WACC = 92% * 9% + 8% * 2.0% = 8.4%

The above-calculated WACC will be used in the valuation of North Media. In principal, the WACC is changed yearly due to the fact that owners required rate of return, and the cost of debt tend to change yearly. However, due to uncertainty associated with determination of the WACC in advance, the same WACC will be applied during the budget period.

6.10 Interim conclusion on budgeting

A decrease in turnover is budgeted in 2014 as the economy recovers from the global economic slowdown, and due to the fact the market is mature with low growth opportunities. Turnover is expected at 2014 level in 2014. From 2017-2018 onwards, turnover is expected to increase by 1%, 1.5% and 2% respectively reflecting stabilisation of the world economy and simultaneous recovery in the advert market. No major acquisitions / investments are projected during the budget period; thus, the growth in turnover is purely organic. The budget assumptions seem reasonable taking into account the budget control, although they may be considered rather conservative taking into account the recent turnover guidance released by the company in connection with FY 2013 results.

7. Valuation

This chapter will summarise on the analysis from chapters 1 – 6 and conclude by estimating the market value of North Media as per 30 December 2013.

7.1 Choice of valuation model

There are various models used in determining the value of a company. In this thesis, the Economic Value Added (EVA) and Discounted Cash Flow (DCF) are used. Analysts commonly use these two models. Of the two models, the DCF model is the most commonly used model (Plenborg & Greulund 14). Furthermore, the DCF model will be used as the primary valuation model. It is worth mentioning that the two models tend to give the same result if the underlying assumptions are identical (Petersen, Plenborg, 2011a). However, the two models measure the company differently with the EVA model showing the values created to shareholders in excess of what they require to take up a risk in a particular company; whereas the DCF model shows the amount dueto shareholders after payments of operating expenses from operating activities, net financial expenses and investments in net working capital and fixed assets.

7.2 DCF model

The DCF model has its own pros and cons. DCF's main advantage is the fact the model is widely used and well known by users, and takes free cash flow as a point of departure, which is a trustworthy measure. In addition, the DCF model produces the closest value of the company unlike other models, which use multiples to compare stock within sectors[68]. These models are fairly easy to calculate and are not useful if the entire market or sector is over or undervalued[69].

The DCF's main disadvantage is the fact that the model works well only when the basic assumptions (free cash flow, discount rate growth rate in terminal period, etc.) used in the model are correct. Consequently, if the basic assumptions are inaccurate, the model will give a distorted valuation (garbage in garbage out). In addition, the model works best when there is a high degree of certainty about future cash flows[70]. This is not always the case as it is difficult to predict sales growth, or cost behaviour with certainty in the terminal period (perpetuity growth rate) let alone growth rate during the next few years (Investopedia.com).

[68] http://www.investopedia.com/university/dcf/dcf5.asp
[69] http://www.investopedia.com/university/dcf/dcf5.asp
[70] http://www.investopedia.com/university/dcf/dcf5.asp

However, a sensitivity analysis will be performed at the end of the valuation process in order to determine the effects of changes in the basic assumption to the value of North Media. In addition, the EVA model will supplement the DCF model.

Figure 7.1. Valuation using DCF Model

Discounted Cash Flow Model	**2013A**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
FCF		5	46	47	49	51	52
Discount rate (1,0836)		1,097	1,203	1,319	1,447	1,587	1,740
PV FCF		5	39	36	34	32	30
Total of PV of FCF	175						
Continuing value (CV)							680
PV of CV	391						
Value of NOA	**565**						
-Book value of NFO	14						
- Minority interest	15						
Value of Equity	**536**						
Outstanding shares	20						
Value per share	**27**						

Source: own creation

As seen from figures 7.1, the value of equity for North Media is estimated at DKK 536 million corresponding to a value per share of DKK 27. North Media's shares were trading at DKK 19 at March 14, 2014 (the research deadline date). The estimated price is therefore 42 % above March 14 trading.

7.3 EVA model

As mentioned above, the EVA model will supplement the DCF model in the valuation of North Media. The EVA model calculates the value created in excess of the required return of the company's investors (being shareholders and debt holders)[71] i.e. it compares the net operating profit to the cost of capital. A positive EVA means that the company is profitable and able to cover its cost of capital and vice versa.

$$EV_0 = Investedcapital \sum_{t=1}^{n} \frac{EVA_t}{(1+WACC)^t} + \frac{EVA_{n+1}}{(WACC-g)^n} * \frac{1}{(1+WACC)^n}$$

[71] http://en.wikipedia.org/wiki/Economic_Value_Added

Where:

EVA = (ROIC-WACC) * Invested capital

WACC = Weighted Average Cost of Capital

g = growth rate in terminal period

n = number of forecasted years

t = time

Like the DCF model, the EVA model has its own advantages and disadvantages. EVA's main advantage is the fact that the model summarises how much profit is obtained, and from where the profit originates. The model takes into account balance sheet events (Invested capital) and the income statement (NOPAT). Hence the model encourages managers to think about assets as well as expenses in their decisions[72]. On the disadvantages side, the EVA calculation depends greatly on invested capital, thus the model is most applicable to asset intensive companies that are generally stable. In addition, calculation of NOPAT can be distorted by decisions regarding depreciation and amortisations. Furthermore, economic value added, only applies to the period measured. It is not predictive of future performance, especially for companies in the midst of reorganisation and/or about to make large capital investments[73].

Figure 7.2 Valuation using EVA Model

EVA Model	**2013A**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019T**
Operating income after tax	7	40	46	53	58	63	64
Invested capital (beginning)	537	572	572	578	587	599	611
WACC	9,67%	9,67%	9,67%	9,67%	9,67%	9,67%	9,67%
ROIC	5,1%	7,2%	8,1%	9,1%	9,9%	10,6%	10,6%
EVA	-24,46	-14,03	-8,88	-3,04	1,18	5,58	5,69
Discount factor		1,10	1,21	1,33	1,47	1,61	
PV of EVA		-13	-7	-2	1	3	
Continuing value (CV)							74
Invested capital (beginning)	537						
Total PV of budget period	-18						
PV of CV	46						
Value of NOA	**565**						
-Book value of NFO	14						
- Minority interest	15						
Value of Equity	**536**						
Outstanding shares (in million)	20						
Value per share	**27**						

Source: own creation

72 http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/economic-value-added-eva-2925

73 http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/economic-value-added-eva-2925

As mentioned above, the DCF and EVA models tend to have the same conclusions when the same assumptions are applied. As seen in figure 7.2 above, North Media's value of equity is estimated at DKK 536 million, corresponding to a value per share of DKK 27 (the same value as the DCF model). Note that, EVA is negative during 2014-2016 due to the fact that WACC > ROIC. Negative EVA indicates that the invested capital did not generate enough profit to cover the cost of capital. From 2017 onwards, EVA is positive due to higher ROIC than WACC. Thus, the invested capital did create enough profit to cover the cost of capital.

7.4 Sensitivity analysis

In this chapter, changes in budget assumptions will be performed in order to find out the sensitivity of the value of equity; to changes in two variables i.e. WACC and the growth rate in the terminal period.

Figure 7.3 Sensitivity analysis

		Growth rate in terminal period				
		1,00%	1,50%	2,00%	2,50%	3,00%
	7,53%	30	32	34	37	40
	8,49%	27	29	30	32	35
WACC	9,67%	25	26	27	28	30
	10,18%	24	25	26	27	28
	11,10%	22	23	24	25	26

Source: own creation

7.5 Interim conclusion on sensitivity analysis

As seen from figure 7.3 above, the DCF model is very sensitive to changes in both growth rates in the terminal period and WACC. A growth rate of 1 % leads to a 7.4% decrease in the share price from DKK 27 to DKK 25. On the other hand, a growth rate of 3 % leads to a 11.1 % increase in share price from DKK 27 to DKK 30.

Changes in WACC also impact the share price. A decrease in WACC to 7.53% due to e.g. a decrease in beta from 1.28 to 0.90, leads to a 25.9 % increase in the share price to DKK 34. On the other hand, an increase in WACC to 11,10% due to an increase in liquidity premium from 2 % to 4 %; leads to a decrease in the share price by 11.1 % to DKK 24.

Of the two changes (growth in the terminal period and WACC); changes in WACC has a significant impact on the share price as the price ranges between DKK 24 and DKK 34, whereas changes in the growth rate in the terminal period gives only a price range of DKK 25 and DKK 30. It can be deduced that the share price is more sensitive to changes in WACC than the growth rate in the terminal period.

7.6 Multiple valuation

Multiples are used to value companies and are easy and very popular among practitioners (Petersen & Plenborg, 2011a). Consequently two multiples - Price earnings (P/E) and Enterprise value to EBITDA (EV/EBITDA) will be used. The results from multiple valuations are only used to cross check if the values estimated using DCF and EVA models are realistic. In order to use the multiples, several peers were identified. The identified peers have been limited to the Nordic region due to the fact that the Nordic countries resemble each other in several aspects such as culture and lifestyle. In addition, only two peers Alma Media OYJ (Finland) and Schibsted ASA (Norway) will be used due to the fact that some of the identified peers had not released their annual reports as of March 14, 2014. The two peers are to some extent comparable to North Media's, albeit Schibsted's EV/EBITDA being very high compared to that of its peers. Figure 7.4, shows the multiples of the peers. The P/E figures were obtained from Bloomberg and Orbis. The EV/EBIDA for Alma and North Media's data was obtained from Orbis whereas the EV/EBITDA for Schibsted has been calculated due to the fact that Schibsted figures were released later.

Figure 7.4 Peer Group multiples 2013

Peers	P/E	EV/EBITDA
Alma Media OYJ	20.69	6.3
Schibsted ASA	23.64	24.20
North Media	20.44	3.28
Average	**21.59**	**8.45**

Source: Bloomberg, Orbit, own calculations based on annual reports.

7.6.1 Price / earnings (P/E)

P/E measures the company's share price compared to its earnings per share. The ratio is calculated by dividing the market value per share, to its earnings per share. P/E is one of the more commonly used multiples especially in relation to comparing companies operating in the same industry.

Figure 7.5 Valuation using P/E

Valuation: P/E	
Budgeted operating earnings in DKK million	83
Average P/E values	22
Estimated MVE in DKK million	1,124
Outstanding shares in DKK million	20
Estimated value per share	**56**

Source: Own calculations

7.6.2 EV / EBITDA

The EV/EBITDA is obtained by dividing the enterprise value by EBITDA. The ratio is used in valuing companies. Unlike the P/E ratio, EV/EBITDA can be used in comparing companies across countries. The ratio's main advantage is the fact that it is not sensitive to changes in accounting principles. However, the ratio can only be used after making adjustments on items such as differences in tax rates and depreciation.

Figure 7.6 Valuation using EV/EBITDA

Valuation: EV/EBITDA	
Budgeted EBITDA in DKK million	52
Average EV/EBITDA values	8
Estimated VNOA in DKK million	439
-Book value of NFO in DKK million	-42
Estimated MVE in DKK million	481
Outstanding shares in DKK million	20
Estimated value per share	**24**

Source: Own calculations

7.6.3 Interim conclusion on multiple valuation

As seen from the multiples above, North Media's value per share is calculated at between DKK 24 and DKK 56 depending on the used multiple. The calculated share price using the P/E multiple is 2.1 higher than the share price calculated using the DCF and EVA models whereas the calculated share price using EV/EBITDA is 0.9 times lower than the DCF and EVA model's calculated price. Hence the calculated share price (DCF and EVA models) lies within the multiple ranges.

The difference between the two prices could be due to the fact that the budget assumptions are somewhat optimistic compared to the EV/EBITDA multiple or too conservative compared to the

P/E multiple. In addition, the difference could be explained by the fact that the chosen peers do not have the same business profiles as North Media. On assessment it can be seen that the used budget assumptions are reasonable due to the current market conditions (low GDP growth rate), and the characteristics of the Media industry (low growth rate, mature industry, high competition). Thus, the estimated value of DKK 27 per share is considered appropriate. However, it cannot be ruled out that the chosen peers have different business profiles as compared to North Media. It is worth mentioning that the multiples were only used to cross check the correctness of the estimated price using the DCF and EVA models.

7.6 Conclusion on valuation

As seen from figures 7.1 and 7.2 above, the value of equity for North Media is estimated at DKK 536 million, corresponding to a value per share of DKK 27. North Media's shares were trading at DKK 34,5 at December 30, 2013 and DKK 19 at March 14, 2014. Consequently, the estimated price is 22% below December 2013 trading and 42% above March 14 trading. Hence a buy recommendation is concluded.

From the EVA model, it is seen that EVA is negative in 2014 – 2016 due to WACC > ROCI meaning that North Media is not able to cover its cost of capital with profit from operations. Higher WACC is partly due to the fact that a liquidity premium of 2 % is added in the calculation of WACC because of the fact the North Media shares trade on the Small Cap Index, therefore making them illiquid in comparison to shares trading on C20 Index.

Finally, from the sensitivity analysis above, it is evident that North Media's share is very sensitive to WACC whereas changes in the growth rate in the terminal period have less impact.

8. Conclusion

The purpose of this thesis was to make a strategic analysis and valuation of North Media A/S as per December 30, 2013 taking into account the DCF and EVA models. On the basis of the valuation, it is possible to assess whether the company shares trade at below or above market value in comparison to the current market value.

North Media is affected by several macroeconomic factors due to the global economic slowdown, which has led to low/negative GDP growth rates. In addition, the industry is affected by changing consumer preferences and technological development. The young generation (under 45 years) prefer digital media to print leaving the print segment an isolated segment. However, the trend creates both opportunities and threats. The major issue affecting the industry is the political-legal factor, especially regarding the media agreement in Denmark, which determines how much money is allocated to the industry. In addition the legislation related to tax on adverts would impact the industry when it the law takes effective.

Competition in the industry is intense partly due to the high bargaining power of advertisers; and low growth opportunities due to the mature nature of the industry. In addition, entry barriers are considered low due to technological development. Hence, margins are expected to come under even higher pressure during the budget period. However, the industry provides some consolidation opportunities, which may help take up some of the slack. Finally, the industry is affected by the threat of substitute products. However, the threat is reduced by technological development and the fact that the substitutes are within the same industry.

North Media operates in a mature market with limited growth opportunities and constantly changing consumer preferences, thus organic growth is limited. As a result, growth is only possible either through acquisition or launching new products. In recent years, North Media has paid high attention to the value chain by investing in new technologies and products (online segment and online distribution). Consequently, the share of revenue from the online segment has increased to 9% in 2013 compared to 7% in 2009. In addition, North Media has participated actively in the industry consolidation with the acquisition of eight local newspapers in 2013 contributing positively to the top line. However, no major acquisitions are expected in the near future. Hence, North Media's growth opportunity is through product development or technological innovation.

North Media's performance during 2009 – 2013 shows a mixed trend. In 2010 and 2011, turnover is indexed at 111% and 118% compared to 2009 mainly due to some recovery in the advert market, which accounts for the largest part of turnover. In 2012 and 2013, turnover indexed at 107% and 105% respectively compared to 2009 signalling challenging market conditions. Despite decreasing revenue, North Media has managed to generate positive results during the entire period albeit increasing and decreasing bottom lines. The most interesting part is the fact that North Media holds larger cash reserves than debt leading to negative net debt during the entire period with the exception of 2013 where debt > cash by DKK million 14. Higher cash reserves reduce the financial risk significantly. The equity ratio (including minority interests) was 71% in 2009 and 57% in 2013 showing a decreasing trend mainly due to the decrease in retained earnings.

The budget assumes no major acquisitions/investments. Hence capex is mainly related to operational activities. Thus growth in turnover from 2016 onwards is due to organic growth. The budget assumptions are somewhat conservative compared to North Media's guidance but seems reasonable taking into account the budget control and the current market conditions. WACC is larger than ROIC during the first three years of the budget period (2004 – 2016) resulting in negative EVA. It is worth mentioning that WACC is impacted by a liquidity premium of 2%.

North Media's estimated value of equity as per December 30, 2014 is DKK 536 million corresponding to a value per share of DKK 27. The share price is 42% higher than the closing price as per March 14, 2014 meaning that the stock is trading at below the current market value. The sensitivity analysis concluded that the share price is sensitive to changes in the basic assumptions (WACC and growth rate in the terminal period). The multiples showed that the share price ranges between DKK 24 and DKK 56, which is in the range of the estimated value.

The thesis concluded by estimating the value per share of DKK 27 and that the share price is undervalued compared to the current market value. The share price is considered realistic based on the current market conditions and growth opportunities within the industry. However, it is worth mentioning that the budget assumptions are rather conservative in comparison to the company estimates. But, the fact that investors are willing to pay only DKK 19 per share compared to the estimated value of DKK 27 may indicate their pessimism with regards to future growth opportunities.

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10. Appendices

Appendix 1 Consolidated statement of changes in equity

Consolidated statement of changes in equity	Shareholder in North Media A/S						
DKKm	Treasury shares	Hedging reserves	Revaluation reserves	Retained earnings	Parent company's total share	Minority interests	Total Equity
Equity 1 January 2009	**-73**	**-5**	**-8**	**580**	**605**	**56**	**661**
Changes in equity in 2009							
Comprehensive income			2	4	7	4	11
Additional minority interests, net						-51	-51
Capital reduction, cancellation							-
of treasury shares	73			-62			-
Purchase of treasury shares	-1			2	-		-
Extraordinary dividend distributed				-50	-50		-50
Share-based payments				2	2		2
Total changes in equity in 2009	72	-	2	-104	-41	-47	-88
Equity at 31 December 2009	**-1**	**-5**	**-6**	**476**	**564**	**9**	**573**
Equity 1 January 2010	**-1**	**-5**	**-6**	**476**	**564**	**9**	**573**
Changes in equity in 2010							
Net profit for the year				79	79	7	86
Translation adjustments, foreign companies			2		2		2
Fair value adjustment of hedging instruments		-12			-12		-12
Tax, other comprehensive income		3			3		3
Purchase of treasury shares	-22				-22		-22
Dividend distributed and cash remuneration				-130	-130	-4	-134
Dividend, treasury shares				2	2		2
Share-based payments				1	1		1
Total changes in equity in 2010	-22	-9	2	-48	-77	3	-74
Equity at 31 December 2010	**-23**	**-14**	**-4**	**428**	**487**	**12**	**499**
Equity 1 January 2011	**-23**	**-14**	**-4**	**428**	**487**	**12**	**499**
Changes in equity in 2011							
Net profit for the year				293	293	8	301
Translation adjustments, foreign companies					-		-
Fair value adjustment of hedging instruments		-9			-9		-9
Forward contract recognised in the income statetement		10			10		10
Tax, other comprehensive income					-		-
Sales of treasury shares	4				4		4
Dividend distributed				-281	-281	-7	-288
Dividend, treasury shares				6	6		6
Share-based payments					-		-
Total changes in equity in 2011	4	1	0	18	23	1	24
Equity at 31 December 2011	**-19**	**-13**	**-4**	**446**	**510**	**13**	**523**
Equity 1 January 2012	**-19**	**-13**	**-4**	**446**	**510**	**13**	**523**
Changes of recognition of Tryksagsomdeling Fyn P/S					-	10	10
and the relating general partner company					-		-
Changes in equity in 2012							
Net profit for the year				65	65	11	76
Translation adjustments, foreign companies					-		-
Fair value adjustment of hedging instruments		-2			-2		-2
Tax, other comprehensive income		0			-		-
Purchase of treasury shares	-23				-23		-23
Dividend distributed				-60	-60	-16	-76
Dividend, treasury shares				1	1	1	2
Share-based payments				1	1	1	2
Total changes in equity in 2012	-23	-2	0	7	-18	-3	-21
Equity at 31 December 2012	**-42**	**-15**	**-4**	**453**	**492**	**20**	**512**
Equity 1 January 2013	**-42**	**-15**	**-4**	**453**	**492**	**20**	**512**
Changes of recognition of Tryksagsomdeling Fyn P/S							
and the relating general partner company							
Changes in equity in 2013							
Net profit for the year				**9**	**9**	**7**	**16**
Translation adjustments, foreign companies					-		-
Fair value adjustment of hedging instruments		**6**			**6**		**6**
Tax, other comprehensive income		**-2**			**-2**		**-2**
Purchase of treasury shares					-	**1**	**1**
Dividend distributed					-	**-11**	**-11**
Dividend, treasury shares					-		-
Share-based payments				**1**	**1**		**1**
Total changes in equity in 2013	**-**	**4**	**-**	**10**	**14**	**-3**	**11**
Equity at 31 December 2013	**-42**	**-11**	**-4**	**463**	**506**	**17**	**523**

Reformulated consolidated statement of changes in equity	2009	2010	2011	2012	2013
Equity 1 January	**605**	**564**	**487**	**510**	**492**
Transactions with common shareholders					
Sales of treasury shares			4		
Purchase of treasury shares		-22		-23	
Dividend distributed	-50	-130	-281	-60	
Dividend, treasury shares		2	6	1	
Share-based payments	2	1		1	1
Net dividend	**-48**	**-149**	**-271**	**-81**	**1**
Comprehensive income					
Translation adjustments, foreign companies		2	-		
Fair value adjustment of hedging instruments		-12	-9	-2	6
Forward contract recognised in the income statetement		0	10		
Tax, other comprehensive income		3		-	-2
Dirty surplus	**-**	**-7**	**1**	**-2**	**4**
Net profit for the year	7	79	293	65	9
Total comprehensive income	**7**	**72**	**294**	**63**	**13**
Equity at 31 December	**564**	**487**	**510**	**492**	**506**

Appendix 2 Consolidated balance sheet in DKK million

North Media consolidated balance sheet in DKKm	2009	2010	2011	2012	2013
Intangible assets					
Goodwill	43	39	39	64	99
Other intangibles	24	20	19	23	80
Completed development projects, software	32	3	2	2	5
Development projects in progress	4	-	2	4	-
	103	**62**	**62**	**93**	**184**
Tangible assets					
Land and buildings	316	308	300	291	301
Plant and machinery	72	60	48	51	57
Operating equipment, fixtures, fittings	20	15	16	19	17
Property, plant and equipment in course of construction	-	-	-	-	-
	408	**383**	**364**	**361**	**375**
Other non-current assets					
Investment in associates	8	2	8	22	12
Deferred tax	4	1	-	-	-
Other securities and investments	2	3	3	4	9
Other receivables	-	1	2	1	2
	14	**7**	**13**	**27**	**23**
Total non-current assets	**525**	**452**	**439**	**481**	**582**
Current assets					
Inventories	-	-	-	0	0
Trade receivables	65	84	92	99	104
Receivables from associates	-	1	2	1	1
Receivable sales price from disposal of subsidiaries	-	-	-	-	-
Income tax receivables	0	6	0	5	0
Other receivables	13	6	11	5	9
Prepayments	13	14	13	14	15
Securities	-	49	208	188	140
	91	**160**	**326**	**312**	**269**
Cash	155	99	72	47	65
Assets held for sale	32	51	32	25	-
	278	**310**	**430**	**384**	**334**
Total assets	**803**	**762**	**869**	**865**	**916**
Equity					
Share capital	100	100	100	100	100
Treasury shares	- 1	- 23	- 19	- 41	- 41
Hedging reserves	- 5	- 14	- 13	- 15	- 11
Reserve, translation adjustments	- 4	- 4	- 3	- 3	- 3
Retained earnings	475	427	446	452	463
	565	**486**	**511**	**493**	**508**
Minority interests	9	12	13	19	15
Total equity	**574**	**498**	**524**	**512**	**523**
Non-current liabilities					
Deferred tax	2	-	4	7	16
Financial institutions	82	77	149	144	138
Fair value, interest rate swap	7	9	18	20	14
Purchase price payable	-	-	-	19	40
	91	**86**	**171**	**190**	**208**
Current liabilities					
Financial institution	3	4	5	6	6
Trade payables	36	48	56	52	57
Income tax	2	-	10	-	12
Other payables	83	96	85	-	5
Deferred income	14	20	18	81	88
Fair value. Forward exchange rate	-	10	-	24	17
	138	**178**	**174**	**163**	**185**
Total liabilities	**229**	**264**	**345**	**353**	**393**
Total equity and liabilities	**803**	**762**	**869**	**865**	**916**

Reformulated Balance sheet in DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Core Operating Assets					
Goodwill	43	39	39	64	99
Other intangibles	24	20	19	23	80
Completed development projects, software	32	3	2	2	5
Development projects in progress	4	-	2	4	-
Land and buildings	316	308	300	291	301
Plant and machinery	72	60	48	51	57
Operating equipment, fixtures, fittings	20	15	16	19	17
Property, plant and equipment in course of construction	-	-	-	-	-
Deferred tax	4	1	-	-	-
Inventories	-	-	-	-	-
Trade receivables	65	84	92	99	104
Receivables from associates	-	1	2	1	1
Receivable sales price from disposal of subsidiaries	-	-	-	-	-
Income tax receivables	-	6	-	5	-
Other receivables	13	7	13	6	11
Prepayments	13	14	13	14	15
Operating cash*	5	6	6	6	5
	611	**564**	**552**	**585**	**695**
Operating Liabilities					
Trade payables	36	48	56	52	57
Income tax	2	-	10	-	12
Other payables	83	96	85	-	5
Deferred income	14	20	18	81	88
Fair value. Forward exchange rate	-	10	-	24	17
	135	**174**	**169**	**157**	**179**
Core Net Operating Assets	**476**	**390**	**383**	**428**	**516**
Non-core assets					
Investment in associates	8	2	8	22	12
Other securities and investments	2	3	3	4	9
Assets held for sale	32	51	32	25	-
	42	56	43	51	21
Net Operating Assets	**518**	**446**	**426**	**479**	**537**
Net Financial Obligations					
Cash	-150	-93	-66	-41	-60
Securities	-	-49	-208	-188	-140
Financial institutions long	82	77	149	144	138
Financial institutions short	3	4	5	6	6
Deferred tax	2	-	4	7	16
Fair value, interest rate swap	7	9	18	20	14
Purchase price payable	-	-	-	19	40
	-56	**-52**	**-98**	**-33**	**14**
Share capital	574	498	524	512	523
Minority interests	9	12	13	19	15
Common shareholders' equity	**565**	**486**	**511**	**493**	**508**

Appendix 3 Consolidated Income Statement in DKK million

Consolidated Income Statement in DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Total turnover	1,029	1,139	1,211	1,105	1,062
Discounts	-	-	-	-	-
Net turnover	**1,029**	**1,139**	**1,211**	**1,105**	**1,062**
Direct expenses	-367	-400	-427	-375	-357
Direct staff costs	-220	-203	-204	-200	-205
Gross margin	**442**	**536**	**580**	**530**	**500**
Staff costs	-273	-267	-263	-279	-274
Other costs	-100	-119	-124	-125	-136
Amortisation and depreciation	-55	-46	-33	-33	-36
Other operating income	6	6	7	8	9
EBIT	**20**	**110**	**167**	**101**	**63**
Special items, net	-13	-28	-	-7	-20
Share of profit/loss from associates	2	17	-1	-2	-8
Financial income	1	9	7	16	3
Financial expenses	-7	-5	-11	-11	-11
Profit before tax, continuing activities	**3**	**103**	**162**	**97**	**27**
Tax, continuing operations	-7	-15	-41	-21	-11
Net profit, continuing operations	**-4**	**88**	**121**	**76**	**16**
Profit of disposal of subsidiaries	11	-	182	-	-
Net proft, discontinued operations	2	-2	-1		
Net profit for the year	**9**	**86**	**302**	**76**	**16**
Translation adjustments, foreign companies	2	2	1	-	-
Fair value adjustment of hedging instruments	-	-12	-	-2	6
Tax, other comprehensive income	0	3	0	0	-2
Other comprehensive income	**2**	**-7**	**1**	**-2**	**4**
Comprehensive income	**11**	**79**	**303**	**74**	**20**
Attributable, net profit					
Shareholder in North Media A/S	5	79	294	65	9
Minority interests	4	7	8	11	7
	9	**86**	**302**	**76**	**16**
Attributable, comprehensive income					
Shareholder in North Media A/S	7	72	295	63	13
Minority interests	4	7	8	11	7
Comprehensive income	**11**	**79**	**303**	**74**	**20**

Reformulated Income Statement in DKK million	**2009**	**2010**	**2011**	**2012**	**2013**
Net turnover	1.029	1.139	1.211	1.105	1.062
Direct expenses	-367	-400	-427	-375	-357
Direct staff costs	-220	-203	-204	-200	-205
Gross margin	**442**	**536**	**580**	**530**	**500**
Staff costs	-273	-267	-263	-279	-274
Other costs	-100	-119	-124	-125	-136
Amortisation and depreciation	-55	-46	-33	-33	-36
Operating income from sales, before tax	**14**	**104**	**160**	**93**	**54**
Tax as reported	-7	-15	-41	-21	-11
Tax on financial items	-2	1	-1	1	-2
Tax on other operating income	2	2	2	2	2
Total tax	-7	-13	-40	-18	-11
Operating income from sales, after tax	**7**	**92**	**120**	**75**	**43**
Other operating income					
Other operating income	6	6	7	8	9
Tax benefits (at 25%)	-2	-2	-2	-2	-2
Special items, net	-13	-28	-	-7	-20
Share of profit/loss from associates	2	17	-1	-2	-8
Profit of disposal of subsidiaries	11	-	182	-	-
Net proft, discontinued operations	2	-2	-1	-	-
Translation adjustments, foreign companies	2	2	1	-	-
Fair value adjustment of hedging instruments	-	-12	-	-2	6
Tax, other comprehensive income	-	3	-	-	-2
Total other operating income	**9**	**-16**	**186**	**-5**	**-17**
Total operating income	**16**	**76**	**306**	**70**	**26**
Financial expenses	-7	-5	-11	-11	-11
Financial income	1	9	7	16	3
Net financial expenses	-6	4	-4	5	-8
Tax benefits (at 25%)	2	-1	1	-1	2
Net Financial expenses after tax	**-5**	**3**	**-3**	**4**	**-6**
Comprehensive income before minority interest	**11**	**79**	**303**	**74**	**20**
Minority interest	-4	-7	-8	-11	-7
Comprehensive income to common shareholders	**7**	**72**	**295**	**63**	**13**

Appendix 4 Consolidated Cash Flow Statement

Consolidated Cash Flow Statement	**2009**	**2010**	**2011**	**2012**	**2013**
Net profit, continued operations	-4	88	121	76	16
Adjustments for non-cash operating items	83	69	78	57	83
Changes in working capital	-29	18	-22	-3	-10
Cash flow from operating activities before net financials	**50**	**175**	**177**	**130**	**89**
Interest received	-	-	6	1	2
Interest paid	-5	-5	-7	-9	-9
Cash flow from ordinary activities before tax	**45**	**170**	**176**	**122**	**82**
Income tax paid	-4	-22	-21	**-32**	**-2**
Cash flow from operating activities, continuing operations	**41**	**148**	**155**	**90**	**80**
Cash flow from operating activities, discontinued operations	34	-2	-1	-	-
Cash flow from operating activities, total	**75**	**146**	**154**	**90**	**80**
Dividend from associates	9	5	-	-	2
Dividend from securities	-	-	-	1	1
Disposal of non-current assets	3	2	2	**-**	**1**
Investment in non-current assets	-12	-8	-14	-25	-26
Investments in other non-curent assets	-	-	-	-	-6
Freec cash flow	***75***	***145***	***142***	***66***	***52***
Disposal of associates	-		-		
Investments in associates	-3	-	-6	-12	-1
Purchase of minority interest	-37				
Investments in intangible fixed assets	-13	-1	-2	-2	-1
Dividend from securities	-	-	-	1	1
Net investment in securities, net	-	-41	-158	33	50
Acquisition of companies	-	-	-	-17	-67
Cash flow from investing activities, continuing operations	**-53**	**-43**	**-178**	**-21**	**-46**
Cash flow from investing activities, discontinued operations	177	-	201	-	
Cash flow from investing activities total	**124**	**-43**	**23**	**-21**	**-46**
Additions of non-current liabilities	-	-	77	-	-
Repayment of non-current liabilities	-3	-4	-4	-5	-6
Dividend to minority shareholders	-	-4	-7	-16	-11
Dividend to shareholders	-50	-129	-275	-59	-
Investment in treasury shares	-1	-22	-	-	-
Sales of investment in treasury shares	-	-	4	-23	-
Cash flow from financing activities, continuing operations	**-54**	**-159**	**-205**	**-103**	**-17**
Cash flow from financing activities, discontinued operations	-	-	-	-	-
Cash flow from financing activities total	**-54**	**-159**	**-205**	**-103**	**-17**
Changes in cash and cash equivalents	**145**	**-56**	**-28**	**-34**	17
Cash and cash at 1 January	10	155	99	72	47
Effect of changed recognition of Tryksagsomdeling Fyn P/S	-	-	-	9	-
Cash and cash at 31 January	**155**	**99**	**71**	**47**	**64**

Reformulated cash flow statement in DKK million	2009	2010	2011	2012	2013
Cash flow from operating activities					
Reported cash flow from operating activities	75	146	154	90	80
Net financial expenses after tax	5	-3	3	-4	6
	80	**143**	**157**	**86**	**86**
Cash flow from investing activities					
Reported cash flow from investing activities	124	-43	23	-21	-46
Free cash flow	**204**	**100**	**180**	**65**	**40**
Cash flow from financing activities					
Debt financing					
Additions of non-current liabilities	-	-	-77	-	-
Repayment of non-current liabilities	3	4	4	5	6
Net interest expenses after tax	5	-3	3	-4	6
Investment in cash and cash equivalents	145	-56	-28	-34	17
	153	**-55**	**-98**	**-33**	**29**
Equity financing					
Dividend to minority shareholders	-	4	7	16	11
Dividend to shareholders	50	129	275	59	-
Investment in treasury shares	1	22	-	-	-
Sales of investment in treasury shares	-	-	-4	23	-
	51	155	278	98	11
Free cash flow	**204**	**100**	**180**	**65**	**40**