

## Millennial Media: BUYing into the Mobile Ad Hype



Original Picture Source: Business Insider

Report Priced as of January 24, 2014  
Latest Stock Close: \$6.71 (MM-NYSE)  
**Rating & Target: BUY - \$9.00**  
Risk: High

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## Executive Summary

Smartphones and tablets have changed our daily lives and the way we consume information. This societal shift is changing our purchasing behaviours and in turn how we respond to advertisements. My interest grew specifically in the mobile advertising market after seeing the large runs that Facebook and Twitter enjoyed. I have been looking for a stock to take advantage of the fleeting advertising dollars to mobile and feel **Millennial Media** presents that opportunity after a rough 2013. To be perfectly honest, this is a contrarian investment idea as only 2 of the 9 covering research analysts have rated it as a buy.

**I rate Millennial Media (MM) as a BUY with a \$9.00 price target.** I value the company at 1.5x 2015 sales and 3.5x 2015 gross profit. I feel the company has made some key acquisitions and partnerships that have it set to take advantage of shifting industry dynamics. The company is already a market leader in its space and I believe management has been proactive in looking to protect that position. For the following reasons, I believe it is a BUY:

- **The largest publicly traded pure-play mobile advertising company - great way to play booming mobile ad market:** The mobile display market which MM competes in has been forecasted to grow at a CAGR of 53% over the next five years in the US. The company is already the 2nd largest mobile independent ad network with 28.7% market share (after Google with 29%).
- **The industry is consolidating and I believe MM will one of the few left standing:** With the growth of native advertising platforms such as Facebook and Twitter, ad networks have lost their dominance of the mobile display market. Nonetheless, the smaller ad networks are likely to suffer as advertisers look for firms with the best data. MM this year acquired its 3rd largest competitor, in addition to establishing an ad-exchange to offer its ad inventory for the first time programmatically.
- **The company has positioned itself to take advantage of shifting industry dynamics:** Two of the larger trends are the growth of real-time programmatic ad buying and cross-platform targeting. The acquisition of Jumptap has enhanced their programmatic buying platform. In addition, the new ad-exchange opens publishers to a new set of demand from its partner AppNexus. The Jumptap acquisition comes with 45 mln cross-screen profiles, allowing advertisers to participate in cross-platform targeting.
- **It is relatively undervalued to other digital advertisers:** The company currently trades at 1.0x 2015 Sales and 2.5x 2015 Gross Profit, while its peers trade at 4.6x and 7.1x. Given the company's prospects and the mobile ad market forecasted to take a larger share of the digital ad market, I feel such a large a discount is not warranted.
- **MM could be a potential acquisition target:** There have been many acquisitions in the mobile ad market over the past four years including ad networks such as Google-AdMob or ValueClick-Greystripe. Potential acquirers could include firms looking for a stronger market position such as Microsoft or Yahoo; private equity firms looking to invest into the market or wireless carriers looking to add to their ad revenue model as Singtel did in 2012 when it acquired Amoebee.

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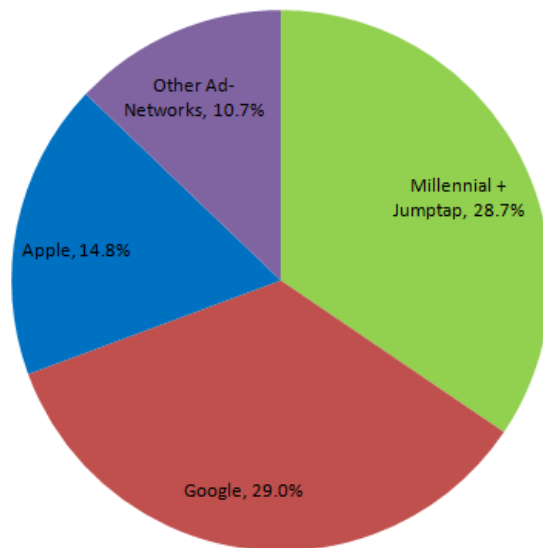
## Investment Highlights

I rate **Millennial Media (MM)** as a **BUY with a \$9.00 price target**. The stock has lost 44% of its value since the beginning of 2013; I feel it is undervalued at current levels and now would be an ideal time to enter the stock. A lot of the stock's decline has had to do with its soft earnings since Q4/12, either just meeting or missing expectations. This is a firm in a very-high growth industry and I feel assessing it on a quarter to quarter basis is the wrong approach. Rather, I would like to focus on what is ahead and feel the company is positioning itself to be a leader in its competitive landscape.

### *Leading Player in the Mobile Display Ad Market*

**Millennial Media offers exposure to the mobile advertising market - it is the largest pure-play publicly traded mobile advertising platform.** MM focuses specifically on the mobile display ad market, which is expected to grow at a 5-year CAGR of 53% in the US. In 2013, the company made a round of acquisitions (Metaresolver, Jumtap) and partnerships (AppNexus) which adds capabilities that are poised to take advantage of industry trends (listed on pg.11). Prior to these acquisitions, the company was already the second largest competitor. However, management has been proactive and is looking to build a company that can deliver a sustainable value proposition. The company now rivals Google in terms of market share (Exhibit 1) and offers a great way to play the quickly rising mobile advertising market.

#### **Exhibit 1: Mobile Display Ad Network Market Share (as of 2012)**



Source: IDC, AA

**In the long run, I see MM to be one of the larger independent ad networks to remain competing with large publishers.** International Data Corporation (IDC) noted the rise of native advertising (Facebook, Twitter) in 2012 and expects this trend to continue. IDC expects the independent ad networks to be fighting for a smaller percentage of market share going forward. For this reason, we have begun to see industry consolidation with acquisitions such as MM-

Jumtap, Twitter-MoPub and Yahoo-AdMovate. Advertisers are essentially looking for firms with the best data (that makes consumer targeting efficient) and prefer to go to fewer service providers. Thus, I see either smaller firms getting taken over or being squeezed out as the larger ad networks grow their services and user data. With the firm already investing in occurring industry shifts, combined with growth of its database (as more ads are bought/placed), I believe MM will be one of the ad networks standing at the end and expected to take market share of smaller players.

### Undervalued By the Market

**I value it at 1.5x 2015 Sales and 3.5x 2015 Gross Profit.** I have set a target multiple above current trading levels (Exhibit 2); however did not set it as high as some of the other comps due to the opaque nature of guidance (pro-forma one quarter forward), soft domestic earnings in 2013 and lower gross margins. I would like to see management exceed expectations before moving my multiple up. I based my valuation methodology on 2015 EV/Sales and Gross Profit because the company is still in a high top-line growth phase, is easier to compare to comparables who are experiencing similar growth and I feel 2015 is a better representation of MMs capabilities after Jumtap is fully integrated, synergies are fully realized and MMX is making a full contribution. I also perform a DCF analysis to proof my target (though not included in target calculation).

#### Exhibit 2: MM Target Price Valuation

Type	EV/Sales	EV/Gross Profit	DCF
2015 Sales/Gross Profit	573,710	235,221	
Target Multiple	1.5x	3.5x	
Enterprise Value	860,565	823,274	836,759
Add: Cash (Q4/13E)	108,977	108,977	108,977
<b>Equity Value</b>	<b>969,542</b>	<b>932,251</b>	<b>945,736</b>
# of Shares (Q4/13)	106,212	106,212	106,212
<b>Price/Share</b>	<b>\$9.13</b>	<b>\$8.78</b>	<b>\$8.90</b>
Current Price	\$6.71	\$6.71	\$6.71
Lift to Target	36%	31%	33%
<b>Blended Target Rate</b>	<b>\$9.00</b>		

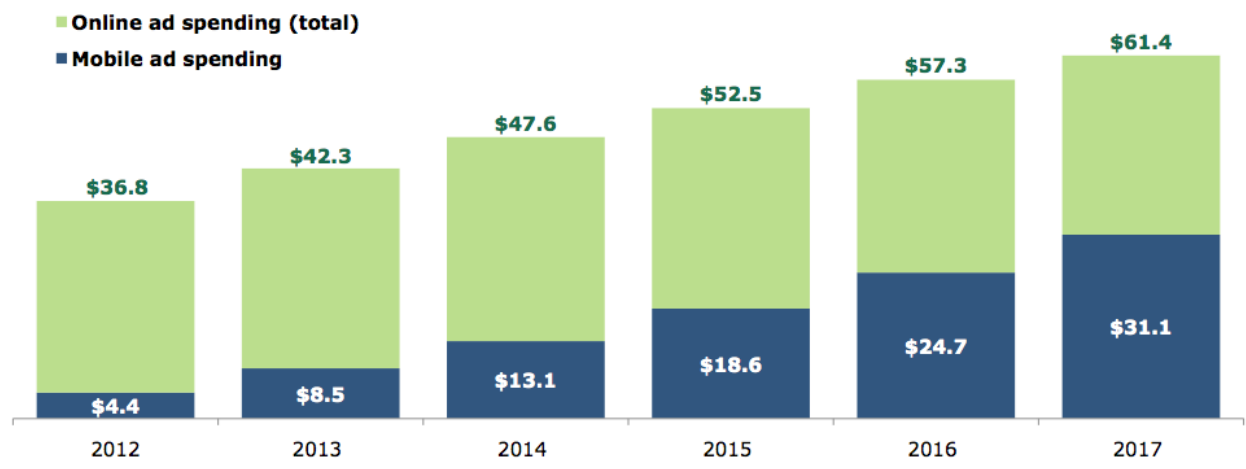
Source: Company Reports, AA

**Millennial is relatively undervalued to other digital advertising comparables (Exhibit 3).** MM currently trades below the list of comparables I have compiled (those with some sort of technology platform in digital advertising). Though I do believe a premium is warranted, given that some of these names are more mature (or exposed to native advertising); I do not feel MM should be trading at that particular discount given that mobile advertising is forecasted to take a larger market share of the online advertising market (and display ad spending being the sub-segment with the highest growth rate) [Exhibit 4] and feel the company is well poised to succeed in the long run.

**Exhibit 3: Digital Advertising Comparables**

Comparables Table										
Company Name	Ticker	Price	S/O	EV	EV/Sales			EV/Gross Profit		
					2014	2015	2016	2014	2015	2016
<i>Digital Advertising Comps</i>										
Google	GOOG	\$1,123.83	334	365,462	6.4x	5.5x	4.9x	9.5x	8.3x	8.0x
Yahoo	YHOO	\$37.91	1,014	37,717	8.3x	8.1x	7.8x	11.0x	10.6x	10.0x
Facebook	FB	\$54.45	2,540	135,790	13.0x	10.1x	8.0x	17.4x	13.4x	10.5x
Twitter	TWTR	\$61.74	567	35,887	31.8x	20.2x	13.2x	47.3x	28.6x	18.0x
Pandora	P	\$33.55	194	6,075	6.7x	5.4x	4.1x	12.2x	10.0x	6.8x
Rocket Fuel	FUEL	\$62.80	33	1,963	4.6x	2.9x	1.9x	10.1x	6.3x	4.1x
Marin Software	MRIN	\$9.40	33	202	2.2x	1.8x	n.a.	3.5x	2.8x	n.a.
ValueClick	VLCK	\$21.67	67	1,587	2.6x	2.5x	2.3x	3.8x	3.6x	3.3x
Tremer Video	TRMR	\$4.57	50	131	0.9x	0.7x	0.6x	2.1x	1.6x	1.3x
<b>Peer Average</b>					8.5x	6.3x	5.4x	13.0x	9.5x	7.7x
<b>Peer Average - ex TWTR</b>					5.6x	4.6x	4.2x	8.7x	7.1x	6.3x
Millennial Media (Cons.)	MM	\$6.71	106	591	1.4x	1.1x	0.9x	3.6x	2.7x	2.1x
Millennial Media (Amir)	MM	\$6.71	106	591	1.3x	1.0x	0.8x	3.3x	2.5x	1.9x

Source: Bloomberg, AA

**Exhibit 4: Mobile Ad Spending vs. Online Ad (Digital Ad) Spending**

Source: marketingcharts.com, eMarketer

**Take Out Potential**

**With the industry currently consolidating and MM shares trading at a low price, it could be the ideal premium asset to be acquired.** The company has already set up a programmatic real-time bidding platform, has near top market share, available on all mobile operating platforms and an already large base of valuable user data. MM would be an ideal fit for anyone looking to enter the mobile space (we already seen it when with ValueClick, Apple and Google) or enhance its mobile growth prospects (MM, Twitter).

**Potential acquirers could include Microsoft, Yahoo or private equity.** There were rumours of a potential take-out by Microsoft in 2010 for \$500 mln and I believe they remain a likely candidate. Though, Microsoft does do some mobile advertising through Bing ads, they have less market share than MM in the total mobile ad market (eMarketer). Yahoo is less likely to purchase Millennial after acquiring AdMovate in July 2013 to build out their display advertising team. Despite both companies having mobile advertising divisions, a purchase of MM would give them an instant market position and rival the likes of Google (which is more or less what Marissa Mayer has been looking to set-up after 20 acquisitions in 2013). It could also be a candidate for a private equity takeover given that the company has no debt and could be highly levered.

**Other potential candidates would be wireless carriers, who are looking to evolve their ad revenue model.** Singtel, the largest telecom operator in the Asia-Pacific region acquired Amoebee; a mobile ad network that along with display, offers services in mobile WAP, web and messaging. Silicon Valley-based boutique investment bank Architect Partners believes other wireless carriers will follow Singtel's lead. They feel that wireless carriers must integrate ad revenue or risk being marginalized. A combination of the customer relationships that they own with MM's data would enhance user profiles and targeting capabilities - thus, making it a good fit.

**Based on recent acquisition multiples, MM could warrant a high premium if acquired.** I took recent acquisitions within the mobile ad tech space and came up with per share values if MM were taken out at the multiples listed below (Exhibit 5). Prices ranged from \$12.42 to \$70.73. As a cautionary, this is strictly an academic exercise and is not to be taken as fair value of a takeover. It must be noted these multiples were likely overvalued at the time given that these were private companies and most acquirers were looking to buy them quickly and early for their technology. I believe it is unlikely MM would be taken out at 3.5x sales given that it is publicly traded, and an acquirer could take a minority position at around market price prior to a full takeout. A small increase in the takeout multiple to current estimates, would lead to a large premium.

**Exhibit 5: Analysis of Recent Acquisition Multiples within Mobile Ad-Tech Space**

Acquirer	Millennial	Twitter	Google	Apple	Singtel	ValueClick	Opera
Target	JumpTap	MoPub	AdMob	Quattro	Amobee	Greystripe	AdMarvel
Date	Jul-13	Sep-13	Nov-09	Jan-10	Mar-12	Apr-11	Jan-10
Type	DSP	SSP	Ad-Net	Ad-Net	Ad-Net	Ad-Net	SSP
Reported Takeout Value	\$187	\$350	\$750	\$275	\$321	\$70	\$8-\$23
Reported Revenue Run Rate	\$53	\$100	\$100	\$21	\$30	\$25-\$30	\$3
Gross Profit ("Net Revenue")	\$23	\$13	\$40			\$6	
<b>Take Out Multiples</b>							
EV/Sales	3.5x	3.5x	7.5x	13.1x	10.7x	2.3x - 2.8x	2.6x - 7.6x
EV/Gross Profit	8.2x	26.9x	18.8x			11.7x	
<b>Millennial Media</b>							
2015 Sales	\$574						
2015 Gross Profit	\$235						
# of Shares (Q4/13) - mm	106						
Current Share Price	\$6.71						
<b>Share Price at Multiples Listed Above</b>							
EV/Sales	\$19.06	\$18.91	\$40.51	\$70.73	\$57.80	\$12.42-\$15.12	\$14.04-\$41.05
EV/Gross Profit	\$18.16	\$59.62	\$41.52			\$25.84	

*Note: Many of these figures are reported estimates and have not been confirmed*

*Note: Gross Profit for MoPub was annualized based on H1/13 figures provided by Twitter*

Source: TechCrunch, Architect Partners, Company Reports, AA

### Jumptap and MMX - Demand Side Expansion through better Programmatic Buying and Cross-Platform Targeting

**Jumptap grows MM's demand side, giving publishers wider access.** Jumptap purchases ad space on behalf of its advertisers and ad agencies via ad exchanges. Furthermore, all of MM's data is first-party but Jumptap brings 20 third-party partnerships to enhance MM's value proposition to potential advertisers. As stated in Industry Trends (pg.11), advertisers are looking to go with service providers with the best data. Jumptap focuses only on the US market but there is room to potentially grow internationally once fully integrated.

**Jumptap enhances MM's programmatic buying and cross-platform technology.** A key industry trend is the transition to programmatic real-time bidding for ad space. The largest contributing factor to the acquisition was Jumptap's expertise in programmatic buying. With MM working on the MMX (see below), it was critical for MM to develop a strong programmatic buying platform to complement its ad inventory being offered programmatically for the first time.

**Jumptap's diversifies MM's revenue base.** Historically, on the demand-side MM has been more brand-based and premium performance focused, while Jumptap is more focused on performance advertising. In addition, a large portion of advertisers for MM come from the retail, entertainment, insurance and telecom sector while Jumptap's come from finance and



QSR, with both overlapping in auto and consumer products. Jumtap's strengths provide some downside protection in case of weak ad spending in particular category or sector.

**The newly launched Millennial Media Exchange (MMX) opens up its inventory to new demand.** The MMX is the company's first offering of its ad inventory through programmatic buying. It is in partnership with AppNexus (itself an ad-exchange) and opens MM ad inventory to demand associated with AppNexus. It enables programmatic buyers (that use AppNexus platform) to participate in bidding for ad inventory supplied by MM. Combined with Jumtap's programmatic buying platform (which is also available to AppNexus clients), this will increase bid density for the ad inventory. This also bodes well in terms of obtaining more ad space from publishers in the future with a larger access to various sources of demand. The MMX is still early stage and will likely take 12 months before hitting full stride.

**Jumtap and MMX together enhance the possibilities of cross platform targeting.** In addition to Jumtap's real-time bidding platform, it brings with it 45 mln cross-platform user profiles - taking advantage of another industry trend. With the launch of the MMX, users of buying platforms from Jumtap and AppNexus can connect cookies from desktop to individual mobile data; allowing advertisers the opportunity to target across multiple devices. I feel this acquisition is not fully appreciated by the market yet, due to a soft Q3 and with it being largely financed by equity.

## Investment Risks

**Large firms can undercut Millennial with competitive pricing.** Large firms such as Google or Apple could essentially offer more competitive pricing to advertisers due to their larger resources. However, these concerns have been somewhat alleviated recently with the acquisition of Jumptap which has made Millennial a near number two to Google in the independent ad-network market.

**Increasing market share for large publishers, could venture into independent ad network.** 2012 saw the emergence of Facebook and Twitter, as large publishers took over the mobile display market (52%). IDC predict native advertising to continue to grow and take more of the market. However, this is likely to impact smaller ad networks with less data and targeting efficiencies. MM is a large player within the mobile display market and is somewhat sheltered. However, recently Facebook has begun to test running their own ad-network on other apps (outside of FB) for the second time. It is still early stage and it is unknown if its platform capabilities will match MM's. Nonetheless, I have built some conservatism into my long-term forecast to account for the growing market share of large publishers.

**Mobile advertising is very competitive and its landscape could change.** Given for the two reasons above, and that technology is always improving - I could be overestimating MM's value proposition as an independent. Mobile advertising is still in its infancy and large shifts could significantly damage Millennial's prospects. For example, the programmatic ad spending market has more than doubled in the past two years. If management were slow to react to a new trend, it would result in weaker revenues and profits.

**Integration risk remains on Jumptap.** Prior to the acquisition, Jumptap was the 4th largest competitor and as of recent acquisitions (see Exhibit 5 on pg.5) was one of the higher revenue generating targets - making it more complex to integrate (relative to other takeovers). There is expected to be one-time costs of \$11 mln during integration but synergies of \$20-\$25 mln recognized in 2015. Any negative change in guidance is likely to cause downward pressure on the stock price.

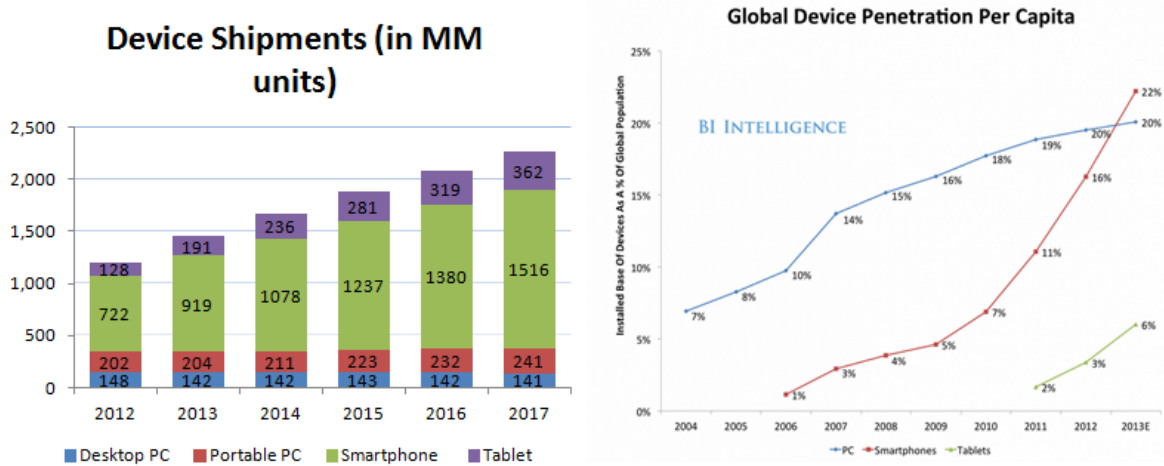
**Near-term downward pressure remains due to quarterly expectations.** The company has failed to meet consensus expectations for 3 of the past 4 quarters, resulting in weak stock performance following their releases (however in Q3/13, after the Jumptap acquisition was announced, management saw many customers go from MM to Jumptap – which led to the earnings miss). The company is likely to report Q4/13 in late February and failure to meet expectations again is likely to result in further stock weakness in the near-term.

**Advertising as a whole is exposed to cyclicity.** Advertising dollars depend on the economy like most industries. During recessions, we are likely to see less advertising dollars deployed if consumer spending is trending down. This could be potentially damaging to the mobile ad forecast and result in weaker revenues for all participants.

## General Industry Overview

Mobile shipments expected to rise from 850 million to 1.9 billion by 2017. IDC anticipate smartphone and tablet shipments to cross 1 billion in 2013 and to experience a 5-year CAGR of 17.2% (Exhibit 6). This data is further backed up by Business Insider, which found that global penetration for smartphones has surpassed PCs and doubled for tablets in 2013. These figures are likely to trend upwards as access to faster wireless networks improves globally.

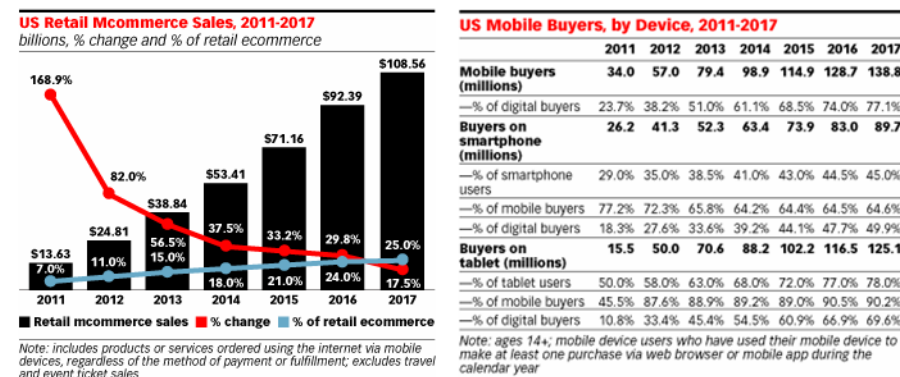
**Exhibit 6: Device Shipments and Device Penetration**



Source: hashmeta.com, IDC, Business Insider, AA

Percentage of digital buyers that will spend on their mobile is to grow from 38.2% in 2012 to 77% by 2017 in the US (Exhibit 7). In addition to the high demand of mobile devices, we will see a large increase in buyer activity. Mobile commerce is expected to grow to 25% of total retail ecommerce in the US. With the combination of flat PC shipments and Mcommerce growth; it is expected more advertising dollars will shift to mobile. It can be reasonably expected the same trends experienced in the US will follow globally, as well as in emerging markets as wireless connectivity and infrastructure improves.

**Exhibit 7: US Retail Mcommerce and US Mobile Buyers**



Source: marketingland.com, eMarketer (April 2013)

**Mobile display ad spending (in the US) is forecasted to grow at a 51% CAGR till 2017 (Exhibit 8).** We are concerned with looking at *display ad spending* as this is the space Millennial Media competes in. It includes advertisements within apps (outside of web mobile). Mobile ad spending as a whole is growing, but spending on display ads has the highest growth rate (outside of 'other'). This is largely due to the growing app economy and ability to deliver enhanced functionality. It should be noted that this forecast was revised up by eMarketer in August 2013 (prev: April 2013).

**Exhibit 8: US Mobile Ad Spending By Format 2011-2017**

In \$mm	2011	2012	2013	2014	2015	2016	2017
Search	\$743	\$2,241	\$4,348	\$6,661	\$9,300	\$12,229	\$15,253
<b>Display</b>	<b>\$547</b>	<b>\$1,848</b>	<b>\$3,809</b>	<b>\$5,988</b>	<b>\$8,661</b>	<b>\$11,571</b>	<b>\$14,499</b>
Banner, rich media, native, other	\$479	\$1,605	\$3,233	\$4,960	\$7,041	\$9,248	\$11,512
Video	\$68	\$244	\$576	\$1,029	\$1,619	\$2,324	\$2,987
SMS/MMS/P2P	\$251	\$223	\$240	\$223	\$211	\$209	\$200
Other (classified email, lead gen)	\$27	\$50	\$112	\$214	\$389	\$695	\$1,176
Total	\$1,568	\$4,363	\$8,508	\$13,086	\$18,561	\$24,705	\$31,128

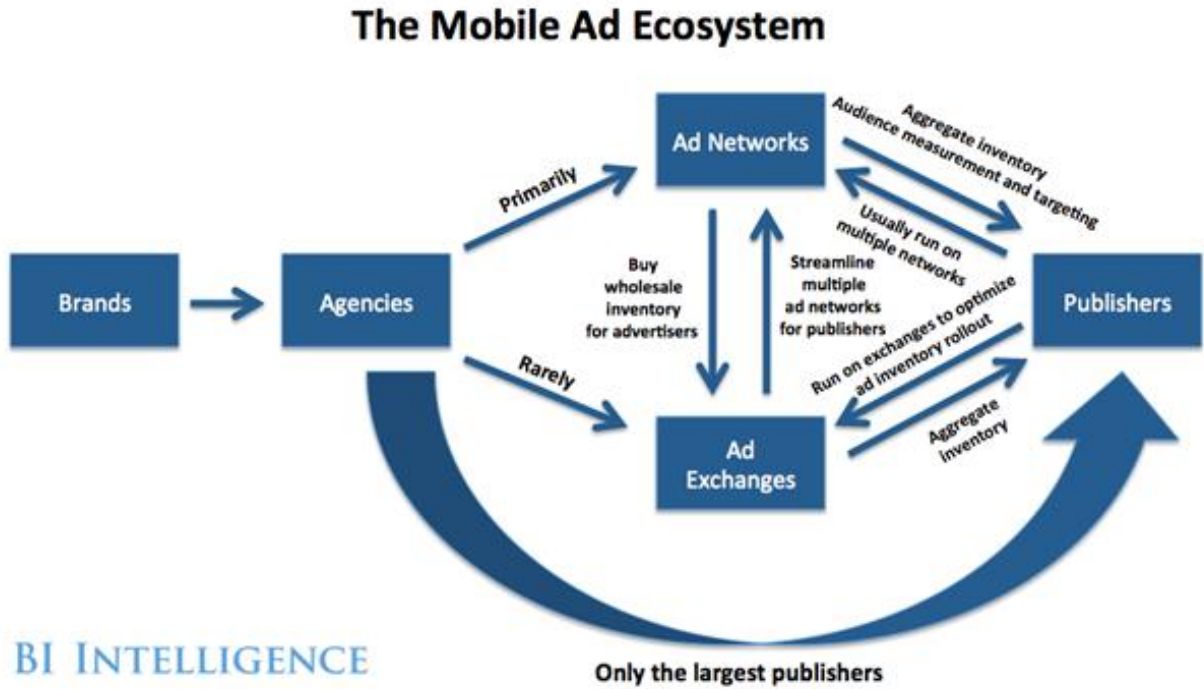
Growth Rate	2012	2013	2014	2015	2016	2017	5Yr CAGR
<b>Display</b>	<b>238%</b>	<b>106%</b>	<b>57%</b>	<b>45%</b>	<b>34%</b>	<b>25%</b>	<b>51%</b>
Banner, rich media, native, other	235%	101%	53%	42%	31%	24%	48%
Video	259%	136%	79%	57%	44%	29%	65%
Total	178%	95%	54%	42%	33%	26%	48%

Source: eMarketer (Aug. 2013), AA

**The market consists of the supply side, which is ad inventory provided by publishers and the demand side, which is those advertisers looking to place their ads.** Below is a quick sketch-up of how the display ad market works by Business Insider (Exhibit 9). MM is an ad network that deals with publishers, advertisers and ad exchanges. Specifically the recently launched MMX allows other ad networks demand side to bid for ad impressions (but does not allow MM's advertising clients to bid on impressions on other ad networks).

**Display advertising can be categorized as into brand and performance advertising.** Brand advertisements usually involve banner ads, in which they advertise the brand of a product or service. They are typically priced on a cost per thousand clicks basis (CPM). Performance advertisements seek an action from the user and involve more interactive ads consisting of rich media. They are typically priced cost per action (CPA) basis (if clicked). For example, Facebook focuses more on performance advertising (engaging the user), while Twitter focuses more on brand advertisements.

Exhibit 9: The Mobile Ad Ecosystem

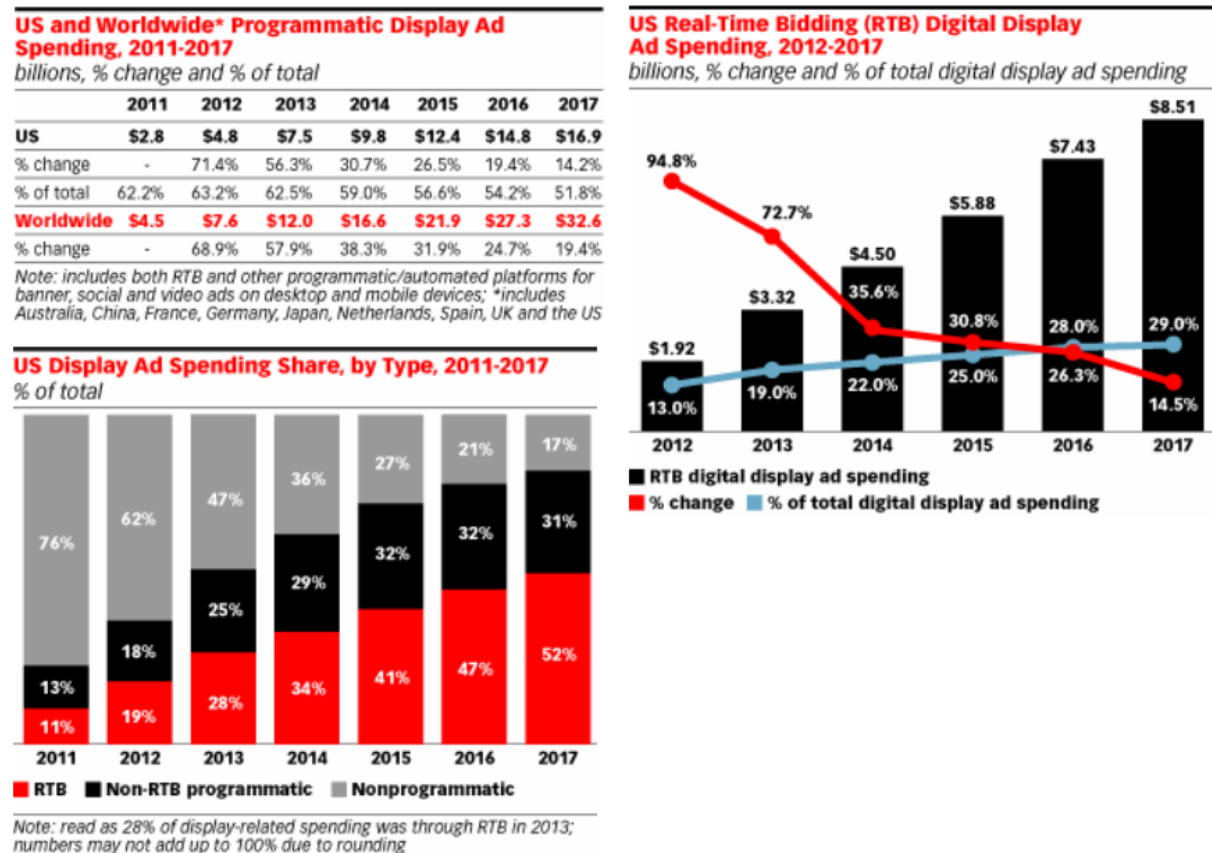


Source: Business Insider

## Industry Trends

**Programmatic real-time bidding set to take over digital display ad market.** Programmatic buying is automated ad buying by advertisers, allowing them to purchase ad impressions through algorithms and be able to control what they are buying through real-time bidding. We are seeing more ad-networks/exchanges offer individual advertisers the ability to bid for individual impressions and have more control of targeting and managing their budget. It is already established in the desktop display ad market (\$5.3 bln this year) and has begun to make inroads into the mobile ad market (\$1.4 bln). I expect this figure to grow as it continues to be further adopted by advertisers.

**Exhibit 10: Programmatic and Real-Time Bidding Forecast**

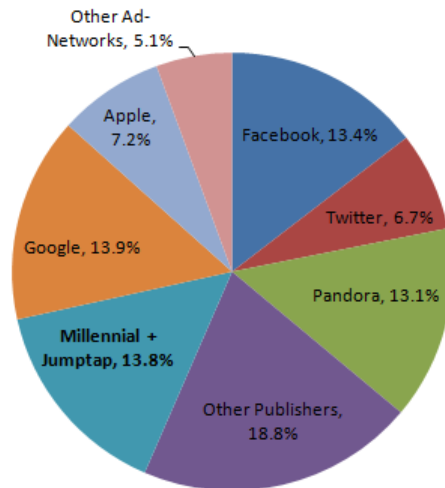


Source: eMarketer (Oct. 2013), MAGNA GLOBAL

**Mobile publishers (native advertising) taking larger market share.** In 2012, for the first time mobile publishers (Facebook, Pandora, Twitter) surpassed the ad networks (Google, Apple, Millennial) in market share, controlling 52% of the US display ad market. This number grew from 39% in 2011, the largest contribution of the increase coming from the emergence of Facebook and Twitter which had zero sales in 2011. International Data Corporation (IDC) expects ad-networks to continue to lose market share to mobile publishers. This is likely due to their large user base accumulated by publishers and easy ability to match cross-platform data as users log their personal details into software platforms (ad networks rely on agreements with publishers

but can be boxed out if privacy permissions are restrictive). Furthermore, we are beginning to see some of the larger publishers potentially establishing their own independent ad network (IE those outside of their apps). Twitter acquired MoPub, while Facebook has been testing its own ad network on other apps.

### Exhibit 11: Mobile Display Advertising Market Share in 2012



Source: IDC, AA

**Advertisers looking for firms that can offer the best data and targeting capabilities**. With ad networks being squeezed by large mobile publishers, IDC see independent ad networks entering a difficult phase in which they are competing for a smaller percentage of market revenue. I believe the ad-networks that will survive are those with large data and ability to scale up, which enhances the platforms targeting capabilities. In today's market, advertisers are looking for companies with strong and big sets of data and a large inventory, thus providing them with wider access to a suitable target audience.

**Due to the need of obtaining the best data and targeting technologies, we are seeing industry consolidation.** It is unlikely the smaller players will survive without being taken out, as larger advertisers can offer better rates and more services/data. We have already begun to see consolidation this year with recent acquisitions such as Millennial-Jumptap, Twitter-MoPub and Yahoo-AdMovate. I expect further consolidation this year, as ad-networks and publishers look to add to their data, reach of users and technical capabilities (such as programmatic ad trading). In the long run, I see the ad network side consolidating to the current largest three firms and potentially room for one or two more competitors.

**Cross-platform increases ROI for advertisers.** Cross platform targeting is the ability to track and link user activity throughout multiple devices. For example, a mobile app would know to display an ad of a recently viewed good that was searched on PC (desktop cookie). This allows advertisers to yield a higher ROI on ad campaigns as they are able to tailor more highly efficient ads to individuals rather than two separate ads on two unlinked profiles (which could be the

same person). Ad-networks are beginning to implement strategies to exploit this trend, as evident with the recent acquisition of Jumptap by Millennial which came with 45 million cross-platform IDs. Google was long aware of this, when it acquired Admob in 2009 (allowing it to combine with its search capabilities). Cross platform targeting is easier for large publishers such as Facebook and Twitter, as their users have an individual ID; making it easier to identify individuals throughout multiple devices.



## Company Overview

**Millennial Media (MM) is a leading independent mobile advertising platform company (also known as an ad network).** They help remove the complexity of mobile advertising by assisting (app) publishers to maximize their advertising revenue and advertisers reach their target audience more effectively through targeting technologies. The mobile ecosystem can be complex and MM's value proposition is to assist navigating publishers and advertisers through it. In simple terms, they purchase ad space from publishers and then in turn offer that inventory to advertisers.

**Working with MM is advantageous for all parties involved.** By signing up with MM, publishers get access to revenue and tools that allow their apps to display: banner, interactive and video ads (via SDK kits). In return, publishers provide MM with space and access to *anonymous* data, allowing MM to build sophisticated unique individual profiles or audience groups. MM then offer these two takeaways to advertisers, combined with real-time decision making, optimization and targeting capabilities to create highly targeted advertisements; which can be as direct to one individual. As more ads are delivered, MM gains more data in regards to the effectiveness of the ad campaign and thus can better measure ROI of a particular campaign for advertisers.

**More than 49,000 apps are enabled to receive ads through their platform and can deliver ads on 8,500 different mobile devices.** After the recent Jumptap acquisition, they now have over 550 million unique individual profiles which includes 45 million cross-screen profiles; and process over 50 billion ad impressions per month. Their platform supports Apple iOS, Android, Windows Phone and Blackberry. Apple (3rd largest market share) is restricted to only Apple iOS devices, which has opened a door of opportunity for MM as advertisers and agencies prefer fewer full-service partners to buy at scale. Advertising clients include all top 25 of Ad Age (ranked) Advertisers and 86 of the top 100.

### Recent Impactful Developments

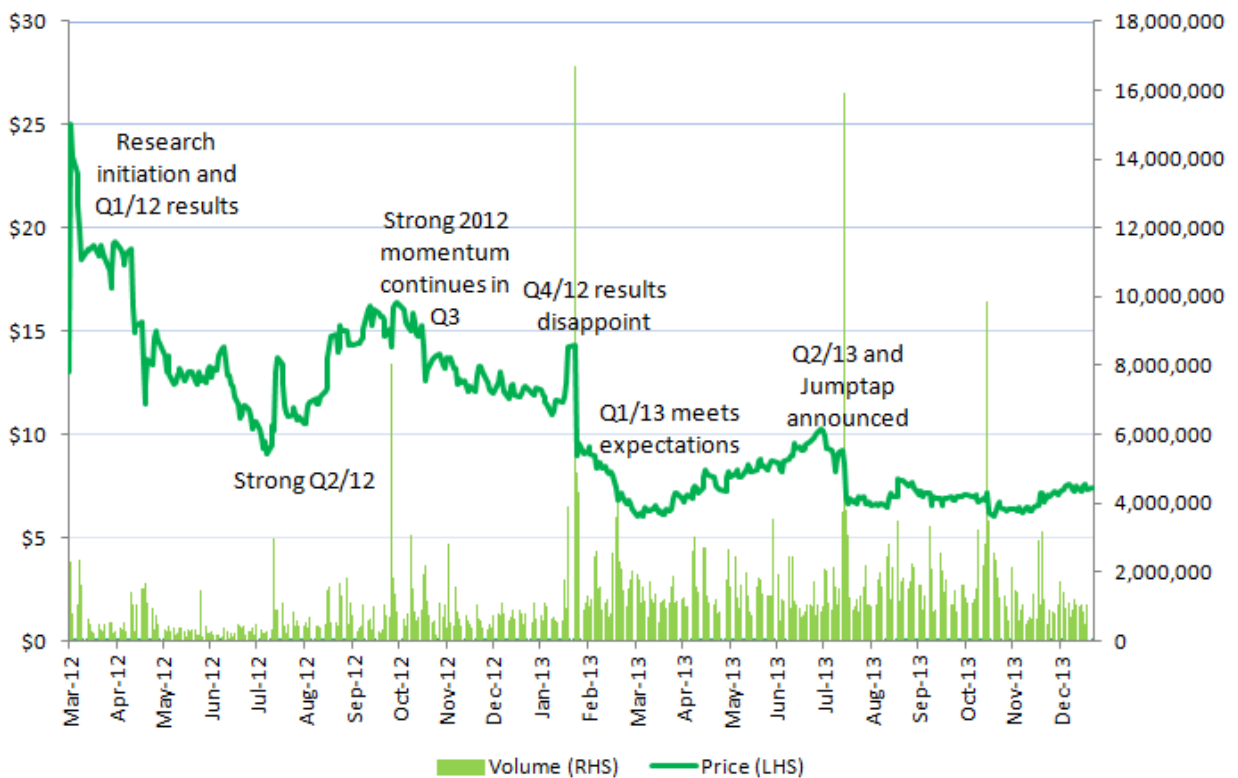
**This year, MM acquired the 4th largest competitor, Jumptap and demand side platform Metaresolver.** The acquisition was closed November 6, 2013 and is expected to add \$20-\$25 million in synergies by 2015. It was paid partly by cash (\$9.5 mln) but largely by stock (24.7 mln shares), giving the acquisition a total fair value of \$186 mln. Jumptap alone last year had \$63 mln in revenue and is expected to grow between \$95 to \$105 this year. Jumptap processes more than 2 bln ads per day, has 20 third-party data partnerships, 55 issued patents (50 pending) and brings in 120 mln user profiles (45 mln cross-screen). Metaresolver (acquired in April 2013) was a mobile media buying and targeting platform, enhancing MM's programmatic services. These acquisitions have added to MM's services for advertisers, making ad bidding easier.

**In collaboration with ad exchange AppNexus, MM announced the launch of its Millennial Media Exchange in Sept. 2013.** This marks the first time MM's mobile inventory will be available programmatically and is the largest premium mobile ad exchange. It allows advertisers and publishers to buy and sell on a real-time programmatic basis. This partnership opens up Millennial's ad inventory to AppNexus demand-side customers.

## Stock Overview

Millennial Media went public on March 28, 2012, raising gross proceeds of \$132.6 mln at \$13. Shortly after it went public, the stock reached a high of \$27.90. It has since trended down and lost 44% of its value since the start of 2013. After some strong earnings mid-2012, domestic top-line growth was disappointing while international revenues roared on. This led to weak stock performance in 2013 and was later compounded by the acquisition of Jumtap which was financed with equity (22.5% of control). It has been trading in between \$6.00 to \$7.75 since. Institutional ownership is reasonably high at 57%.

**Exhibit 12: Stock Price Chart**



Source: Bloomberg, AA

**Exhibit 13: Institutional Ownership**

	Shares Outstanding	%
Institutional	60,150,198	57%
Insiders	10,141,487	10%
Retail/Other	35,920,315	34%
<b>Total</b>	<b>106,212,000</b>	

Source: NASDAQ, Bloomberg, AA

## Financial Forecast

**Revenue is forecasted to grow at 28% CAGR from 2013 to 2019.** In the first three quarters of 2013, international revenues grew strongly (168%) and I believe this trend is likely to continue. China is the number one smartphone market; India is the fastest growing market due to greater availability of low-cost devices and additional sales emphasis on less populous areas of the country; and Brazil is beginning to see wider smartphone adoption (IDC). MM has expanded internationally with offices located in UK, Singapore, EU, Japan and Southeast Asia and partnerships with Latin American based ad networks. They are well poised to take advantage of the international market and I expect international revenue to experience the strongest growth in the long run (39% CAGR).

**I still expect the largest portion of revenue to come domestically, but forecasted lower growth rates than overall market.** US revenues have been disappointing with YTD sales only growing 17% (excluding Jumtap). Due to the growth of native advertising within large publishers and potential threat of their own ad networks, I built some conservatism into my forecast, leading to domestic revenue growth to be lower than the forecasted mobile display ad market (Exhibit 14). I assume all Jumtap revenue is generated domestically (though it is likely to expand internationally in the future and thus I bumped up the growth rate on international revenues). It can be noted that MM's market share (of the entire display market) is forecasted to decline due to the expansion of native advertising. Furthermore, I expect smaller players to be weeded out or picked up - providing more opportunity for larger firms such as Millennial to pick up a larger slice of the pie.

**Exhibit 14: Sales Forecast vs. US Mobile Display Ad Market Forecast**

In US \$mm	2011	2012	2013	2014	2015	2016	2017	5yr-CAGR
Market	572	1,748	3,809	5,988	8,661	11,571	14,499	53%
<b>Growth%</b>		<b>206%</b>	<b>118%</b>	<b>57%</b>	<b>45%</b>	<b>34%</b>	<b>25%</b>	
MM + Jumtap (2013)	93	151	279	356	435	530	632	33%
<b>Growth%</b>		<b>62%</b>	<b>85%</b>	<b>28%</b>	<b>22%</b>	<b>22%</b>	<b>19%</b>	
Total Market Share		9%	7%	6%	5%	5%	4%	

Source: eMarketer, Company Reports & Presentations, AA

**I expect margin increase over time as the business continues to be scaled up.** In the near-term, I see some margin pressure due to the acquisition of Jumtap. Once fully integrated, I foresee the company meeting management's target of \$20 mln in synergies. I expect gross margin to improve over the next few years and return it the high end of management's range of 42%. I expect operating costs to decline in the long-term as well as the company scales up. It should be noted, I do not forecast stock-based compensation (awards to employees) as it is volatile and no guarantee it will continue at this pace in the future.

## Exhibit 15: Financial Forecast Q1/12-Q4/14E

In \$US mm	2012				2013				2014			
Income Statement	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	32.9	39.4	47.4	58.0	49.4	57.0	56.1	102.1	98.2	106.2	112.7	131.9
Cost of Revenue	19.9	23.8	28.0	34.1	28.9	32.8	33.9	62.3	59.9	64.8	67.6	79.1
Gross Profit	13.0	15.7	19.4	23.9	20.6	24.2	22.2	39.8	38.3	41.4	45.1	52.8
Gross Margin	39.5%	39.7%	40.9%	41.2%	41.6%	42.4%	39.6%	39.0%	39.0%	39.0%	40.0%	40.0%
Operating Costs (Ex-SBC)	14.9	17.0	17.9	19.1	22.6	23.7	25.2	44.0	37.5	39.3	40.5	47.0
Stock-Based Comp	1.1	1.0	3.2	2.2	1.7	3.5	1.6	0.0	0.0	0.0	0.0	0.0
Operating Income (EBIT)	(3.0)	(2.3)	(1.7)	2.6	(3.7)	(3.0)	(4.6)	(4.2)	0.8	2.1	4.6	5.7
Interest and Other	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBT	(4.0)	(2.2)	(1.7)	2.6	(3.7)	(3.0)	(4.6)	(4.2)	0.8	2.1	4.6	5.7
Tax (GAAP)	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.3	0.7	1.6	1.9
Net Income	(4.0)	(2.2)	(1.8)	2.6	(3.8)	(3.1)	(4.6)	(4.2)	0.5	1.4	3.0	3.8
EPS(Basic & FD)					(0.05)	(0.04)	(0.06)	(0.04)	0.00	0.01	0.03	0.04
Adjusted EBITDA	(2.4)	(0.7)	2.1	5.6	(0.8)	1.9	0.2	(1.1)	3.9	5.3	7.9	9.2
EBITDA Margin	(7.4%)	(1.9%)	4.5%	9.6%	(1.6%)	3.4%	0.4%	(1.1%)	4.0%	5.0%	7.0%	6.9%
Cash Flow Statement												
Operating	(6.7)	0.1	0.2	3.9	(2.0)	1.1	(0.3)	(1.5)	5.3	6.2	8.4	9.0
Investing	(0.6)	(1.3)	(1.6)	(1.8)	(1.8)	(12.6)	(1.4)	(10.7)	(2.0)	(2.0)	(2.0)	(2.0)
Financing	0.1	115.3	0.3	12.9	(0.1)	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Total	(7.2)	114.0	(1.1)	15.0	(3.9)	(10.9)	(1.4)	(12.2)	3.3	4.2	6.4	7.0
Ending Cash	128.5	123.5	122.4	137.4	133.5	122.6	121.2	109.0	112.3	116.5	122.9	129.9
Balance Sheet												
Balance Sheet												
Current Assets	166.6	168.4	175.7	198.6	189.2	183.0	183.2	183.0	182.5	194.2	201.9	220.2
Long-Term Assets	7.1	7.8	8.7	9.9	10.7	22.5	23.0	207.8	206.7	205.5	204.1	202.7
Total Assets	173.7	176.2	184.4	208.4	199.8	205.5	206.3	390.8	389.2	399.7	406.0	422.9
Current Liabilities	27.4	31.5	38.1	44.4	38.0	42.3	46.1	57.7	55.4	63.8	65.5	76.7
Long-Term Liabilities	0.3	0.3	0.3	0.2	0.3	0.5	0.3	0.3	0.5	1.2	2.8	4.7
Total Stockholder Equity	146.0	144.4	146.1	163.8	161.6	162.7	159.9	332.8	333.3	334.7	337.7	341.5
Accumulated Surplus	(48.6)	(50.8)	(52.6)	(50.0)	(53.8)	(56.9)	(61.5)	(65.7)	(65.2)	(63.8)	(60.8)	(57.0)
Total Equity + Liabilities	173.7	176.2	184.4	208.4	199.8	205.5	206.3	390.8	389.2	399.7	406.0	422.9

Source: Company Reports, AA

**Exhibit 16: Financial Forecast 2011-2019**

In \$US mm	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR
<b>Income Statement</b>										
Revenue	103.7	177.7	264.6	449.0	573.7	725.2	885.3	1,038.4	1,155.6	28%
Cost of Revenue	63.6	105.7	157.8	271.4	338.5	420.6	513.5	602.3	670.3	
<b>Gross Profit</b>	<b>40.1</b>	<b>71.9</b>	<b>106.8</b>	<b>177.5</b>	<b>235.2</b>	<b>304.6</b>	<b>371.8</b>	<b>436.1</b>	<b>485.4</b>	<b>29%</b>
<i>Gross Margin</i>	38.7%	40.5%	40.3%	39.5%	41.0%	42.0%	42.0%	42.0%	42.0%	
Operating Costs (Ex-SBC)	40.8	76.4	122.3	164.4	198.0	240.7	283.1	309.8	331.4	
Stock-Based Comp	1.8	7.5	6.8	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Operating Income (EBIT)</b>	<b>(0.7)</b>	<b>(4.5)</b>	<b>(15.6)</b>	<b>13.2</b>	<b>37.2</b>	<b>63.8</b>	<b>88.7</b>	<b>126.3</b>	<b>154.0</b>	
Interest and Other	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
EBT	(0.8)	(5.4)	(15.6)	13.1	37.2	63.8	88.6	126.3	153.9	
Tax (GAAP)	(0.5)	0.1	0.0	4.5	12.6	21.7	30.1	42.9	52.3	
<b>Net Income</b>	<b>(0.3)</b>	<b>(5.4)</b>	<b>(15.6)</b>	<b>8.7</b>	<b>24.5</b>	<b>42.1</b>	<b>58.5</b>	<b>83.3</b>	<b>101.6</b>	
EPS(Basic & FD)	(0.32)	(0.11)	(0.19)	0.08	0.23	0.40	0.55	0.78	0.96	
<b>Adjusted EBITDA</b>	<b>1.8</b>	<b>4.5</b>	<b>0.4</b>	<b>26.3</b>	<b>52.3</b>	<b>79.6</b>	<b>104.8</b>	<b>142.7</b>	<b>169.6</b>	<b>176%</b>
<i>EBITDA Margin</i>	0.0%	0.0%	0.1%	5.9%	9.1%	11.0%	11.8%	13.7%	14.7%	
<b>Cash Flow Statement</b>										
Operating	(2.8)	(2.5)	(2.5)	28.9	51.1	60.3	71.4	98.2	116.2	
Investing	(5.6)	(5.3)	(26.5)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	
Financing	(2.7)	128.5	0.8	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Total</b>	<b>(11.1)</b>	<b>120.7</b>	<b>(28.4)</b>	<b>20.9</b>	<b>43.1</b>	<b>52.3</b>	<b>63.4</b>	<b>90.2</b>	<b>108.2</b>	
Ending Cash	16.7	137.4	109.0	129.9	173.1	225.4	288.7	378.9	487.1	
<b>Balance Sheet</b>										
<b>Balance Sheet</b>										
Current Assets	53.1	198.6	183.0	220.2	270.4	348.6	438.1	555.6	684.7	
Long-Term Assets	8.8	9.9	207.8	202.7	195.6	187.9	179.7	171.4	163.8	
<b>Total Assets</b>	<b>61.9</b>	<b>208.4</b>	<b>390.8</b>	<b>422.9</b>	<b>466.0</b>	<b>536.5</b>	<b>617.8</b>	<b>727.0</b>	<b>848.5</b>	
Current Liabilities	29.2	44.4	57.7	76.7	82.6	105.5	128.3	154.2	174.1	
Long-Term Liabilities	0.5	0.2	0.3	4.7	17.5	22.9	22.9	22.9	22.9	
Total Stockholder Equity	32.2	163.8	332.8	341.5	366.0	408.1	466.6	549.9	651.5	
Accumulated Surplus	(44.4)	(50.0)	(65.7)	(57.0)	(32.5)	9.6	68.1	151.4	253.0	
<b>Total Equity + Liabilities</b>	<b>61.9</b>	<b>208.4</b>	<b>390.8</b>	<b>422.9</b>	<b>466.0</b>	<b>536.5</b>	<b>617.8</b>	<b>727.0</b>	<b>848.5</b>	

Source: Company Reports, AA

## Valuation

I rate Millennial Media as a BUY with a target price of \$9.00. I value it at 1.5x 2015 Sales and 3.5x 2015 Gross Profit. Though I do perform a DCF analysis, I do not factor it into my target price but rather use it as a means to proof my current target price. Though I expect MM to be earnings positive in 2014, it is still a company going through a very high top-line growth phase, and feel EV/Sales and Gross Profit is the most appropriate measure (will also make for easier comparison to comps experiencing similar growth trends). Furthermore, I chose to use 2015 financials as I feel it is a better representation of MMs capabilities after Jumptap is fully integrated, synergies are fully realized and MMX is making a full contribution. I have provided my DCF analysis below (Exhibit 18), along with a target sensitivity analysis on the terminal value (Exhibit 19) and scenario analysis (Exhibit 20).

### Exhibit 17: MM Target Price Valuation

Type	EV/Sales	EV/Gross Profit	DCF
2015 Sales/Gross Profit	573,710	235,221	
Target Multiple	1.5x	3.5x	
Enterprise Value	860,565	823,274	836,759
Add: Cash (Q4/13E)	108,977	108,977	108,977
<b>Equity Value</b>	<b>969,542</b>	<b>932,251</b>	<b>945,736</b>
# of Shares (Q4/13)	106,212	106,212	106,212
<b>Price/Share</b>	<b>\$9.13</b>	<b>\$8.78</b>	<b>\$8.90</b>
Current Price	\$6.71	\$6.71	\$6.71
Lift to Target	36%	31%	33%
<b>Blended Target Rate</b>	<b>\$9.00</b>		

Source: Company Reports, AA

### Exhibit 18: MM DCF Analysis

Year	0	1	2	3	4	5	
Free Cash Flow to Firm	2014	2015	2016	2017	2018	2019	TV
Adjusted EBITDA	26,266	52,335	79,579	104,823	142,651	169,584	176,367
Cash Taxes	0	0	(16,257)	(30,140)	(42,925)	(52,331)	(59,965)
Change in WC	2,707	(1,215)	(2,952)	(3,251)	(1,464)	(987)	
CapEx	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
<b>FCFF</b>	<b>20,973</b>	<b>43,120</b>	<b>52,370</b>	<b>63,432</b>	<b>90,261</b>	<b>108,265</b>	<b>108,403</b>
PV	20,973	38,160	41,013	43,962	55,359	58,762	578,530

<b>WACC</b>	<b>13.0%</b>
Risk-Free Rate (30 yr)	4%
Market Premium	6%
Beta (Bloomberg)	1.53
<b>Perpetual Growth Rate</b>	<b>4%</b>
<b>Enterprise Value</b>	<b>836,759</b>

Source: Company Reports, AA

**Exhibit 19: DCF Target Price Sensitivity Analysis on Terminal Value**

Target Price Sensitivity Analysis								
Discount Rate								
		10%	11.0%	12.0%	13.0%	14.0%	15.0%	16.0%
Growth Rate	2%	\$ 10.71	\$ 9.53	\$ 8.59	\$ 7.82	\$ 7.19	\$ 6.66	\$ 6.21
	3%	\$ 11.81	\$ 10.34	\$ 9.21	\$ 8.31	\$ 7.58	\$ 6.97	\$ 6.47
	4%	\$ 13.26	\$ 11.39	\$ 9.99	\$ 8.90	\$ 8.04	\$ 7.35	\$ 6.77
	5%	\$ 15.30	\$ 12.78	\$ 10.99	\$ 9.65	\$ 8.61	\$ 7.79	\$ 7.12
	6%	\$ 18.36	\$ 14.73	\$ 12.32	\$ 10.61	\$ 9.33	\$ 8.34	\$ 7.55
	7%	\$ 23.46	\$ 17.66	\$ 14.18	\$ 11.88	\$ 10.24	\$ 9.02	\$ 8.08
	8%	\$ 33.66	\$ 22.53	\$ 16.98	\$ 13.67	\$ 11.46	\$ 9.90	\$ 8.73

Source: AA

**Scenario Analysis**

Scenario analysis shows the price ranges from \$5.40 to \$11.00. The table below shows both the bear and bull case scenario assumptions. In the bear case, I cut my forecasted revenue growth by half in 2015 and lowered my multiple to current market multiples. In the bull case scenario, I did not increase my assumptions by the reciprocal amount that I decreased on the bear case. In addition, I increased the target multiple as I would expect the multiple to expand if the company exceed expectations. The stock provides a lot of upside from current estimates given that a reasonable increase in growth and multiples leads to additional ~30% in return.

**Exhibit 20: Scenario Analysis**

Type	Base		Bear		Bull	
	EV/Sales	EV/Gross Profit	EV/Sales	EV/Gross Profit	EV/Sales	EV/Gross Profit
Rev. 2013-15 CAGR	47%		33%		53%	
2015 Rev. YoY Growth	28%		14%		34%	
2015 Gross Margin	41%		39%		42%	
2015 Sales/Gross Profit	573,710	235,221	467,988	182,515	619,623	260,242
Target Multiple	1.50x	3.50x	1.00x	2.50x	1.75x	4.00x
Enterprise Value	860,565	823,274	467,988	456,288	1,084,340	1,040,967
Add: Cash (Q4/13E)	108,977	108,977	108,977	108,977	108,977	108,977
<b>Equity Value</b>	<b>969,542</b>	<b>932,251</b>	<b>576,965</b>	<b>565,265</b>	<b>1,193,317</b>	<b>1,149,944</b>
# of Shares (Q4/13)	106,212	106,212	106,212	106,212	106,212	106,212
<b>Price/Share</b>	<b>\$9.13</b>	<b>\$8.78</b>	<b>\$5.43</b>	<b>\$5.32</b>	<b>\$11.24</b>	<b>\$10.83</b>
Current Price	\$6.71	\$6.71	\$6.71	\$6.71	\$6.71	\$6.71
Lift to Target	36%	31%	-19%	-21%	67%	61%
<b>Blended Target Rate</b>	<b>\$9.00</b>		<b>\$5.40</b>		<b>\$11.00</b>	

Source: AA



## Disclaimer

I have not been paid for this report.

I currently have no position in this stock, though may initiate a long position in the near future.

I have not visited the company's operations.

This investment may not be suitable for all investors. Please review your risk profile before investing. It is recommended you carry out your own due diligence prior to investing.

I do not take responsibility for any losses you may suffer.