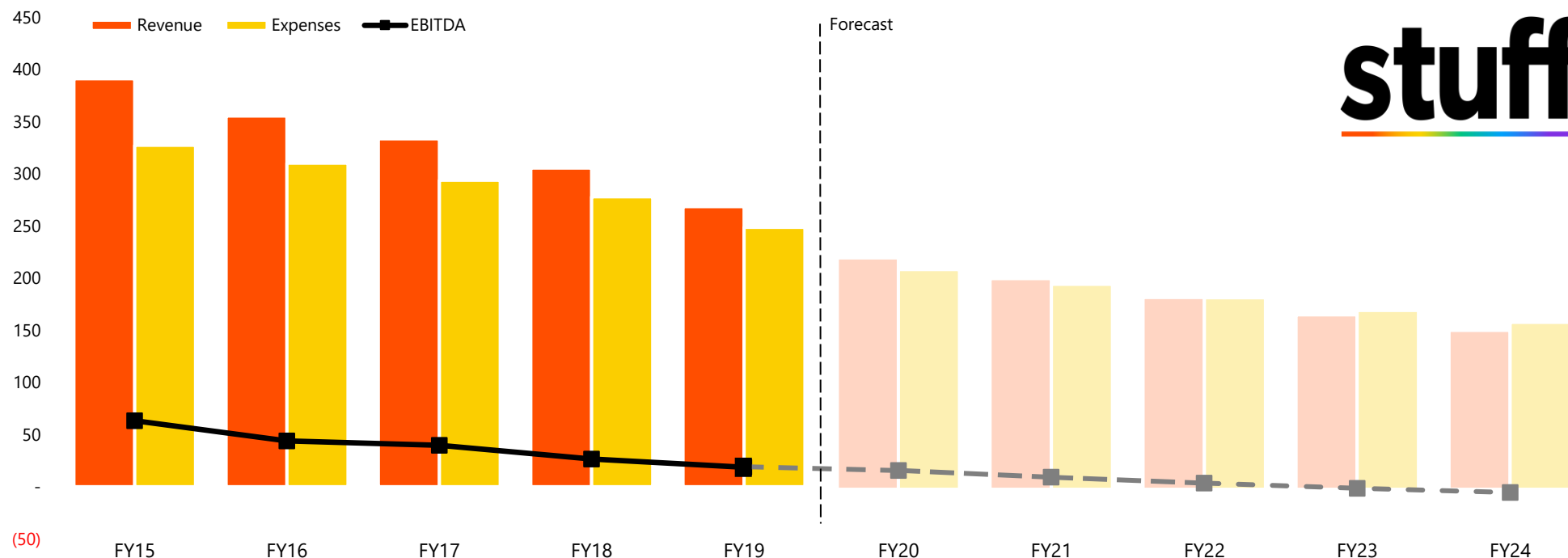


Overview

Clare Capital Tech Insights 172 - Stuff for a \$1 - 20200710

This Tech Insights report looks at Stuff, a New Zealand media company. It was purchased from Nine Entertainment in May 2020 by Stuff CEO Sinead Boucher for \$1. In 2015, Stuff had revenues of NZD ~\$400 million and EBITDA of NZD \$63 million. Recently, media revenues and profitability have taken a material hit worldwide. That said, the sale of Stuff for \$1 raised eyebrows here in New Zealand. We take a look at how Stuff could only be worth \$1 and how some similar transactions have played out internationally.

Stuff financials (NZD millions)



How can a business with hundreds of millions in revenue be worth \$1?

The answer is all about the cash flows of the business. It strongly appears that Stuff is on a trajectory to constantly losing money, without a clear path back to profitability. Businesses in this situation aren't worth much, if anything.

The previous owner, Nine Entertainment, was faced with a material restructuring task. This would likely have involved both a significant investment and management focus. With challenges in their core Australian business, these were resources that are scarce in the current environment. Hence the sale for \$1.

*Based on revenue CAGR: -9.0% and expense CAGR: -6.6% (calculated on previous four years).

Note: This is a simplistic analysis ignoring factors such as COVID-19 that may have accelerated existing trends.

Companies sold for  or  and now worth millions or billions

The businesses below have been turned around for two key reasons - being in the "right place at the right time" (Chelsea) or being fundamentally restructured.



Newsweek was sold for \$1 to Sidney Harman in 2010. Harman took on liabilities of over USD \$47 million.

The print edition was discontinued in 2012 with declining advertising and subscriptions alongside increasing printing costs.

IBT Media purchased Newsweek in 2013, making significant changes and turning the business to profitability in late 2014. Using IBT's resources, content output was increased while still retaining quality journalism.

The print magazine resumed in 2014, but at a higher cost. Currently Newsweek has an estimated circulation of 100,000.



Reader's Digest, once the biggest selling magazine in the world, was sold for £1 to entrepreneur Mike Luckwell in 2014.

Mike Luckwell shifted the magazine's focus from print to digital, significantly increasing its readership and restoring the viability of the business.

Currently the publication has over 24 million readers of both its printed and digital publications and can be found in over 70 different countries.

Disclaimer

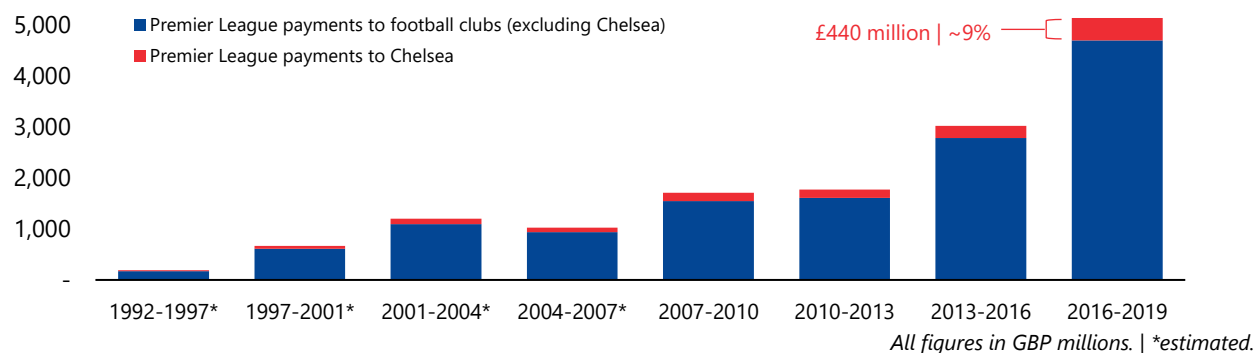
The information provided in this report has been sourced and calculated from S&P Global Market Intelligence. Clare Capital holds no responsibility over the actual numbers. Clare Capital is not an Authorised Financial Adviser. If you are making investment decisions you should seek appropriate personalised financial advice.



Chelsea was sold to Ken Bates for £1 in 1982, £1.5 million in debt.

The introduction of the EPL and greatly increased broadcasting rights in 1992, completely changed the business model for football clubs and created a large revenue stream. In 2003, Ken Bates sold Chelsea to Roman Abramovich for £140 million.

Chelsea is estimated by Forbes to be worth over £2.5 billion (2019).



Renault bought 90% of the Lotus Formula 1 team for £1 in 2015.

The team has since materially increased its revenue while retaining a similar cost base to achieve breakeven and requiring minimal investment from the parent company.

The team is estimated by Forbes to be worth over £340 million (2019) and races under the "Renault F1" team.

