Liberated Syndication: Cheap, Growing, With Catalysts On The Horizon - Behind The Idea

Nov. 24, 2020 9:00 AM ET

Liberated Syndication Inc. (LSYN)

Summary

- Liberated Syndication is at an inflection point following the departure of the former management team.
- As the business continues to generate cash, a new CEO will have the option to reinvest back into the business or initiate share buybacks.
- Shares are available at a below market multiple of free cash flow, with near-term catalysts on the horizon.
- Recent M&A transactions in the podcasting space highlight Libsyn's potential strategic value and point to a much higher valuation.

This article was selected to be shared with PRO subscribers, who also got 7 days' exclusive access to Greystone Capital's original Top Idea on Liberated Syndication (OTCQB:LSYN). Greystone Capital is a long only, equity focused Registered Investment Adviser located in West Chester, PA. The firm utilizes a fundamental research process focused on identifying mispriced small and microcap securities in order to build a concentrated portfolio of high conviction investments. Find out more about PRO here.

Seeking Alpha: Can you briefly summarize your bullish thesis for readers who may not have seen it yet?

Greystone Capital: Libsyn is a good business earning high returns on capital and generating ample free cash flow, currently at an inflection point following years of misaligned, unfocused management that did all but weaken the competitive positioning of the business. Despite the positive share price performance over the last few years, net cash balance sheet and free cash flow generation, Libsyn still trades at a below market multiple and a large discount to recent M&A transactions in the podcasting space. The company has a large amount of low hanging fruit to be addressed over the next 12-18 months that could help drive a multiple re-rating. Outside of that, there are a number of catalysts on the horizon that could drive the shares to be worth multiples of the current price.

At a high level, stocks with Libsyn's characteristics don't usually trade at Libsyn's price. With an enterprise value of around $95mm and conservative 2021 FCF estimates of $10-12mm, sub-10x FCF is way too low for the industry leader, growing podcast revenue 20%+ with strong competitive positioning, high margins and a clean balance sheet. In addition to the small company size and over-the-counter trading status, the market is valuing Libsyn as a mature, cash flow generative business as opposed to a higher growth, recurring revenue, high return on capital business. With simple execution, shares could re-rate, but with multiple catalyst on the horizon, investors could see the opportunity for higher revenue growth, margin expansion and multiple expansion. Although LSYN doesn't quite have the SaaS level of growth rates to garner a 10x revenue multiple (or 30x FCF multiple), the company trades at a discount to every relevant SaaS peer in addition to recent podcast industry M&A transactions that typically take place at 4.5-7x revenues. In addition, unlike recent acquisitions of podcast competitors Anchor, Megaphone and Wondery, LSYN is profitable, and highly cash generative.

SA: As part of the reason for the mispricing is the stock being off the radar, what specifically is going to make it more "on the radar"? How did you find this idea in the first place given that it's so underfollowed?

Greystone Capital: Libsyn is a microcap stock with less than $100mm market cap that trades over the counter. These two factors alone come with sort of an embedded discount as larger funds and investment managers (as a general rule) with large amounts of AUM are not able to own companies that trade OTC or are below certain market cap hurdles. In addition, you won't find LSYN contained within any of the popular indices, making it less popular among the passive investing and quantitative crowds. Often times, when you have a special situation like LSYN that is also a good business, but that possesses the above trading characteristics, the disparity can be wider in terms of price to intrinsic value as opposed to a larger cap business. I spend most of my time in the microcap space and enjoy fishing through many businesses that trade over the counter. One of the advantages Greystone has as a firm is our ability to invest in all types of businesses, market caps, countries, industries etc. with no structural constraints. What's more interesting is that there are a number of businesses that trade over the counter that are actually good businesses with solid management teams and strong competitive positions. I've owned some in the past and I own some now. Small companies can be listed OTC for a variety of reasons (costs, don't meet exchange requirements for size, book value etc.), but that doesn't mean they are automatically 'penny stocks' or bad businesses. Getting back to Libsyn, they had in the past and I believe still do have plans to uplist to an exchange, which will help with a number of things including liquidity, investor awareness and some recognition by the 'screening' crowd when they see the price and free cash flow yield. Independent of a re-listing, there are a number of catalysts that will continue to drive investor interest, not the least of which is the cash generation of the business, but also including a new CEO hire and a new strategic direction for the company.

SA: Management change can be a powerful catalyst – what specific traits or actions do you look for in a new management team that point towards a turnaround? Why do you think investors have missed the management change here as a catalyst?

Greystone Capital: So the interesting thing about this particular management change is that the hiring of a new CEO hasn't happened yet. The former management team is gone, with the former CEO resigning in May of 2020 following a long battle with an activist of which I will spare you the details here, and they are actively searching for a much better fit to move the company forward. Libsyn is definitely a 'show me' story from here, and even though the stock has done well over the past few years, the shareholder base (as well as potential investors waiting on the sidelines) has surely been disappointed with the former management team. Now, there are probably two ways to look at this. One, the market is waiting to see who the new CEO is and waiting to get a look at how they will drive the business forward (by doing simple things, by the way). Two, there is an open CEO job up for grabs for a good business with a long runway and strong competitive position, and the post is still not filled. In either case, once again, I feel as though the market is in 'wait and see' mode as opposed to missing this net positive change. I read a writeup from a few years ago about Libsyn that stated: 'management is the biggest risk to this stock in my opinion.' I had to laugh at the truth in that statement, but I think today it's partly why the opportunity exists.

SA: If the undervaluation persists despite improving fundamentals, do you see the activist investor pushing for a sale to a strategic or financial buyer?

Greystone Capital: Typically I would have thought about this first and foremost in terms of what an activist is looking to get out of a change of control. However, I believe a big fight was put up to make some changes in the C-Suite in order to really drive the business forward by focusing on their core podcast hosting segment. Just recently, the company announced the results of a year-long strategic review. Among other things, they concluded that pursuing organic growth and offering new and improved services to podcasters have the best potential to simultaneously improve the financial results of the company and accelerate growth. I'd say a sale is off the table at this stage, but having said that, there is a tremendous amount of consolidation taking place in the industry as noted by Spotify's recent activity among others. I'd argue that the industry itself is still in the nascent stages, with a large percentage of the population still unaware of podcasts as a form of media consumption. It seems to me there remains a very long runway for growth, and with Libsyn's competitive positioning as the podcast hosting platform with the largest number of top 400 shows, just continuing to do what they have been doing would generate value, without taking into account any positive changes on the horizon.

Finally, unlike some activists who think that all the world's problems can be solved using a spreadsheet, Camac Capital has proposed, and is proposing simple changes that will help drive customer growth and subscription revenue moving forward. These are simple things that unfortunately shouldn't have required the presence of an activist, but here we are. Moving forward, I'd expect better disclosures from management. It's also good to have the activist group on the board, and with skin in the game as one of the largest shareholders of Libsyn. Clearly they care about the potential outcome here and are incentivized to drive the most value for shareholders.

***

Thanks to Greystone Capital for the interview.

Disclosure: I am/we are long LSYN. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.