

## Snakk Media

**Media**
**5 February 2018**

### Improved cash performance

Snakk Media has issued its Q3 KOMs, which are broadly consistent with its full-year targets, with an outperformance of the compensation to revenue ratio and a higher staff turnover than indicated. This figure, though, is highly volatile due to the small numbers involved. The company is still undergoing a review of its capital strategy and the share price is unlikely to recover until the outcome of this is published.

### Self-service underpinning revenue growth

The gross margin KOM at 56% slightly undershot its target, but this reflects the higher inventory cost over the peak advertising season before Christmas. The ytd number is only a shade under the annual target of 58%, well ahead of the industry average (Edison: 35%) and underpinned by its mobile data-driven targeting technology, based on the UberMedia platform. There were some timing issues benefiting the compensation revenue ratio and the staff turnover figure was inflated by a staff member leaving and later rejoining. The self-service offer, launched in October 2016, is growing well in Australia and New Zealand. This offers a programmatic geomobile platform for customers who prefer to manage their own advertising campaigns on UberMedia via Snakk. The growth of this in the mix will depress the group's gross margin, but should drive up the operating margin.

### Operating cash outflow greatly reduced

At the end of September 2017, Snakk had a net cash position of NZ\$0.5m, down from NZ\$0.6m at the year-end and from \$1.6m at end-H117. The operating cash outflow in the first half was greatly reduced at NZ\$0.2m (from NZ\$1.4m in H117), with a higher level of receipts from customers (+11%) and a cost base reduced by 9%. The subscription by the Manji Family Trust raised NZ\$108k post year-end, in H118. The outcome of the appraisal of capital strategy options, announced with the full-year results, is still to be published.

### Valuation: Awaiting clarification

Snakk's share price has continued to drift down over the last quarter from 10c to the current level, having initially been strongly marked down post the review of KOMs at the beginning of April 2017. We suggest that the catalyst for a significant change will be the clarification of the group's capital strategy, still under review. Given the scale of the group, comparisons to global peers are of limited use but, for context, these currently trade at median multiples of 1.1x EV/sales and 8.6x EV/EBITDA.

#### Historical financials

Year end	Revenue (NZ\$m)	Gross profit (NZ\$m)	PBT (NZ\$m)	EPS (c)	EV/gross profit (x)	EV/sales (x)
03/14	7.1	2.9	(1.9)	(12.0)	0.16	0.07
03/15	9.2	3.9	(4.0)	(25.6)	0.12	0.05
03/16	10.5	6.6	(0.9)	(6.6)	0.07	0.04
03/17	10.6	6.3	(3.2)	(20.6)	0.07	0.04

Source: Company accounts

**Price** NZ\$0.06  
**Market cap** NZ\$1.0m

Net cash (NZ\$m) at 30 September 2017 0.5

#### Share price performance



#### Share details

Code SNK  
 Listing NXT  
 Shares in issue 16.3m

#### Business description

Mobile advertising technology company Snakk Media offers a full suite of mobile creative, content and technology services, empowering the world's leading brands and agencies to accurately reach and engage with consumers on their mobile devices.

#### Bull

- Broadening range of products and services.
- UberMedia technology partnership.
- Strengthened cash performance.

#### Bear

- Capital strategy under review.
- Heavy price competition.
- Comparatively small scale.

#### Analysts

Fiona Orford-Williams +44 (0)20 3077 5739  
 Bridie Barrett +44 (0)20 3077 5757

[media@edisongroup.com](mailto:media@edisongroup.com)

Snakk Media coverage is provided through the NXT Research Scheme

## FY18 to date remains on track to meet KOMs

Snakk has now published its performance against target key operating milestones (KOMs) for Q318. The table below shows these in context.

<b>Exhibit 1: Performance against KOMs</b>						
	Q118 (%)	Q218 (%)	Q318 (%)	Ytd 2018 (%)	FY18 target (%)	Q318 ytd target variance (%)
Gross margin	57	59	56	57	58	-1
Compensation ratio	44	37	29	36	42	+13
Staff turnover	12	11	34	51	33	-54
Click-through rate	0.97	0.98	0.98	0.98	0.97	1

Source: Snakk Media

The gross margin is notably higher than that achieved across much of the ad tech sector (see Exhibit 3 below), which is primarily a function of its mobile focus and sophisticated data-led approach, steering clear of the most commoditised areas of the market. The target level was revised down earlier in the year with the push for growth on programmatic self-service on the UberMedia (the group's technology partner) platform – business that achieves lower gross margins but higher operating margins.

The positive fall in the compensation to advertising revenue KOM reflects the continued impact of the restructuring and the timing of natural attrition and new hires, all against growing revenues. Staff turnover in the mobile advertising sector – and much of the tech space – is inherently high. The commentary indicates that the full year figure will be over 50% (ahead of the official 33% target), but this is not an inherent concern. Given the relatively small number of full-time staff, one or two more or fewer make a mathematically meaningful impact on the ratio. One member of staff left in Q3 but returned in Q4, inflating the recorded number.

The click-through rate remains well ahead of the industry average (quoted at 0.62%), which reflects its sophisticated targeting and geolocation capabilities.

The KOMs and targets will be revisited at the year-end, as is standard procedure.

## Interim results showed progress

<b>Exhibit 2: Half-year revenues by geography</b>					
	H117	H217	FY17	H118	Growth
Australia	3,551,681	4,432,631	7,984,312	4,423,328	25%
NZ	618,821	817,803	1,436,624	732,519	18%
Singapore	535,593	669,386	1,204,979	174,830	-67%
Total revenue	4,706,095	5,919,820	10,625,915	5,330,677	13%

Source: Company accounts

The half-year numbers showed encouraging revenue progress in the core markets of Australia and New Zealand, while revenues in Singapore fell as the group concentrated its efforts on growing the self-service revenues. These have grown well, accounting for NZ\$937k of H118 revenues (18% of the group total), from a standing start in October 2016. Managed service revenues were broadly flat in the home markets of Australia and New Zealand, but fell away in Singapore.

The pre-tax loss for H118 was NZ\$0.6m (against H117 at NZ\$1.9m), reflecting the substantial reduction in overheads by c NZ\$1.2m (24.5%) from Q118, the full benefits of which started to be realized from June 2017. As stated above, the operating cash outflow was greatly reduced and the balance sheet stabilised by the cash subscription by the Manji Family Trust.

## Peer comparison

Snakk's share price dropped sharply following the KOM updates in early April, falling from NZ\$0.27 to NZ\$0.09 initially. Since then, it has continued to drift. Using the half-year cash balance of NZ\$0.5m, the group has a low (but positive) EV, but which does not give particularly useful metrics for a peer comparison based on multiples. Quoted companies in the space are currently trading at the multiples shown below.

**Exhibit 3: Listed peer comparison**

	Quoted Currency	Price	Market cap (m)	EV (m)	EV/Sales last (x)	Gross margin last (%)	EV/EBITDA last (x)	P/E last (x)
Taptica	GBP	6.3	302	396	3.1	36.5	15.9	24.4
Criteo	US\$	25.0	1,650	1,319	0.7	35.8	7.4	20.0
SITO Mobile	US\$	6.0	133	130	4.4	54.8	N/A	N/A
Matomy Media	GBP	0.7	67	96	0.5	20.6	8.6	N/A
Fyber	€	0.8	88	213	1.2	27.3	N/A	N/A
RhythmOne	GBP	3.4	123	135	0.9	33.9	N/A	N/A
Median					1.1	34.9	8.6	22.2
Snakk Media	NZ\$	0.1	1	0.5	0.1	59.7	N/A	N/A

Source: Bloomberg. Note: Prices as at 31 January 2018. Sales and net debt are last reported.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

This report has been commissioned by NZX Limited ("NZX") and prepared and issued by Edison Investment Research (NZ) Limited ("Edison"). This report has been prepared independently of NZX and does not represent the opinions of NZX. NZX makes no representation in relation to acquiring, disposing of or otherwise dealing in the securities referred to in this report.

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however neither NZX nor Edison guarantees the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in this report may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Limited (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. This research is distributed in the United States by Edison US to major US institutional investors only. Edison US is not registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison US does not offer or provide personalised advice. This research is distributed in New Zealand by Edison). Edison is the New Zealand subsidiary of Edison Investment Research Limited. Edison is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. The distribution of this document in New Zealand is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the New Zealand Financial Advisers Act 2008 (FAA) (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. Edison publishes information about companies in which we believe our readers may be interested, for informational purposes only, and this information reflects our sincere opinions. This report is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, this report should not be construed as a solicitation or inducement to buy, sell, subscribe, or underwrite any securities referred to in this report. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. Edison has a restrictive policy relating to personal dealing. Edison does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, estimates of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. To the maximum extent permitted by law, NZX, Edison, either of their affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.

Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b

60325 Frankfurt

Germany

London +44 (0)20 3077 5700

280 High Holborn

London, WC1V 7EE

United Kingdom

New York +1 646 653 7026

295 Madison Avenue, 18th Floor

10017, New York

US

Sydney +61 (0)2 8249 8342

Level 12, Office 1205

95 Pitt Street, Sydney

NSW 2000, Australia