EDISON

NXT Company Spotlight

Snakk Media

Media

1 August 2016

Gross margin expands in Q117

Snakk Media (SNK), which connects brands to mobile audiences, has announced that its Q117 gross margin was 67%, its highest ever result and well ahead of the annual target for 62%. The gross margin measure is one of four key operating milestones (KOMs) released on a quarterly basis. In addition, at just 12% in Q117, Snakk said it was comfortably inside its full year staff turnover target of 24%. However, the reported compensation to revenue ratio of 46% is higher than the full year target of 42% and the click-through rate of 0.95% for Q1 was a little below the full year target of 1.00%.

Q117 KOMs

Snakk Media's gross margin of 67% in Q117 was its highest ever quarterly result and well ahead of the 63% achieved in FY16 and the 62% target set for FY17. The company said its strategy for maintaining and growing gross margin included using sophisticated and efficient technologies to purchase advertising inventory cost effectively and maintaining premium product pricing. The company also delivered a lower than target staff turnover rate of 12%, which is well below the industry average of 33%. The compensation to revenue ratio for Q117 was 46%, which is above the full year target for 42% and due to staff hiring in Q1 to meet demand. The click-through rate of 0.95% in Q1 was above that achieved in FY16 (0.90%), but below the full year target for 1.00%. The company said this was well within the acceptable range of the full year target.

Exposed to fast growing markets

Snakk is exposed to some of the fastest growing markets for mobile advertising. The recently released IAB/PWC online advertising expenditure report found that Australia and New Zealand were the fastest growing English speaking markets globally for mobile advertising with respective growth rates of 81% and 122% in CY2015. The report also found that mobile advertising now accounts for c 50% of digital's general display advertising and, in Australia, it had passed the A$500m mark in the March 2016 quarter.

Valuation: Trading at a steep discount to peers

Even allowing for its small size and early stage, Snakk is trading at a significant discount to its listed global peer group of quoted mobile solutions and digital advertising companies. At 0.6x FY16 EV/sales, Snakk is trading at a c 67% discount to the median consensus peer group multiple of 1.8x (see Exhibit 2).

Historical financials

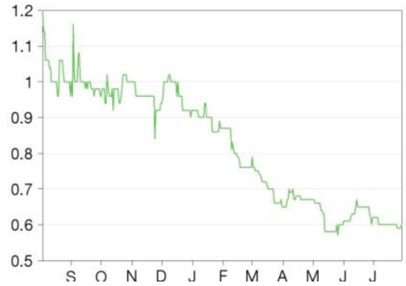
Year end	Revenue (NZ$m)	Gross profit (NZ$m)	PBT (NZ$m)	EPS* (c)	EV/gross profit (x)	EV/sales (x)
03/13	3.7	1.9	(0.9)	(5.7)	3.3	1.7
03/14	7.1	2.9	(1.9)	(12.0)	2.2	0.9
03/15	9.2	3.9	(4.0)	(25.6)	1.6	0.7
03/16	10.5	6.6	(0.6)	(3.7)	1.0	0.6

Source: Snakk Media. Note: *EPS in prior years recalculated for share consolidation.

Price	**NZ$0.60**
Market cap	**NZ$9m**

Net cash (NZ$m) at 31 March 2016	2.9

Share price graph



Share details

Code	SNK
Listing	NXT
Shares in issue	15.7m

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

- Strong management team and board.
- No legacy advertising systems.
- Targeting high-growth Australasian markets.

Bear

- High currency exposure to US dollar.
- Low barriers to entry.
- IP risk tied up with talent.

Analysts

Finola Burke +61 (0)2 9258 1161
Moira Daw +61 (0)2 9258 1161
media@edisongroup.com

Snakk Media coverage is provided through the NZX Research Scheme

Q1 key operating milestones

Snakk announced its Q117 KOMs, demonstrating strong growth in gross margin and lower than target staff turnover. The company also announced that its compensation to revenue ratio for Q1 was a little ahead of the annual target due to staff hirings in the quarter to meet demand, and the click-through rate achieved on its campaigns was a little below the target for the full year.

Snakk set higher targets for FY17 after delivering better than target gross margin and lower than target staff turnover in FY16. Exhibit 1 sets out the Q117 KOMs achieved and the company's targets for FY17.

Snakk is due to report its Q2 KOMs on 28 October.

Exhibit 1: Key operating milestones, Q117 actual and 2017 target

	Q117 actual (%)	2017 target (%)
Click-through rate	0.95	1.00
Gross margin	67	62
Compensation ratio	46	42
Staff turnover	12	24

Source: Snakk Media

Peer comparison

Even allowing for its small size and early stage, Snakk is trading at a significant discount to its listed peers. At 0.6x FY16 EV/sales, Snakk is trading at a c 67% discount to the median consensus peer group multiple of 1.8x, as Exhibit 2 demonstrates. Excluding Opera, which is trading on a high multiple, the median is still 1.2x, which still represents a c 50% premium to Snakk's multiple.

If we were to apply the median EV/sales multiple of 1.8x to Snakk's FY16 sales, we would arrive at an enterprise value of NZ$19m, well ahead of the company's current EV of NZ$6.5m.

Exhibit 2: Listed peer comparison

Company	Code	Currency	Market cap (m)	EV (m)	EV/sales (x)	EV/gross profit (x)	Gross margin (%)	EV/EBITDA (x)
Cheetah Mobile	CMCM.US	US$	1,426	neg.	N/A	N/A	77.1	N/A
Criteo	CRTO:NASDAQ	US$	2,777	2,434	1.8	5.2	35.7	27.2
Mobile Embrace	MBE.AX	A$	155	145	4.4	5.4	82.4	36.5
Opera	OPERA:OSLO	NOK	7,772	7,836	12.7	21.3	59.7	73.5
Sizmek	SZMK:NASDAQ	US$	79	37	0.2	0.3	61.2	2.8
Telenav	TNAV:NASDAQ	US$	217	97	0.6	1.2	50.8	3.0
Median					**1.8**	**5.2**	**60.5**	**27.2**

Source: Bloomberg, Software Equity Group. Note: Prices as at 29 July 2016.

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
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand