EDISON

Snakk Media

Singapore gateway

Full-year revenues

Media

Snakk has published its outline results for the year, with revenues ahead 92% (117% adjusted for currency movements). The group is very much in the investment phase of scaling up, opening new local offices and extending its customer base, with sufficient cash resource to continue the expansion. It is now making early-stage moves into the key Singaporean market. Higher levels of investment mean break even is pushed out, but the potential returns are higher. The shares are priced below global peers as investors wait for clearer indications that those returns will be realised.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/12	2.0	(0.6)	(0.4)	0.0	N/A	N/A
03/13	3.7	(0.9)	(0.4)	0.0	N/A	N/A
03/14	7.1	(1.4)	(0.5)	0.0	N/A	N/A
03/15e	11.4	(0.7)	(0.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Scaling up

The revenue figure was slightly ahead of our NZ$6.9m forecast, while the EBITDA loss was slightly higher (NZ$1.4m vs NZ$1.3m), reflecting the higher investment in building up the operating overheads. These figures are stated before share-based payments, which are considerable (FY14: NZ$0.5m; FY13: NZ$0.3m). With such an early stage company, the timing of scaling up vs earning returns on investment (particularly where the investment is in people with the skill sets to establish a meaningful presence with clients) has a strongly geared effect on results. With the expansion in South-East Asia, we now expect Snakk's break-even point to be further out. However, the opportunities presented from Singapore are considerable.

Blurring boundaries opens opportunities

Rapid global smart screen adoption has been prompting large shifts in consumption of media, not yet fully reflected in the allocation of marketing spend. Rebalancing is underway, however, with mobile one of the fastest growing sectors. Mobile usage was initially similar to behaviour on desktop, with a focus on search, but there is increasing blurring of boundaries between search engines and apps. 'Rules' for ad spend focused on SEO are being recalibrated and market fragmentation is opening up opportunities. Constant technological advances allow brands to nurture closer consumer relationships, increasingly in real time, offering value-added, tangible benefits (eg coupons, vouchers), prompting greater interactivity and engagement.

Valuation: Discount to global peers

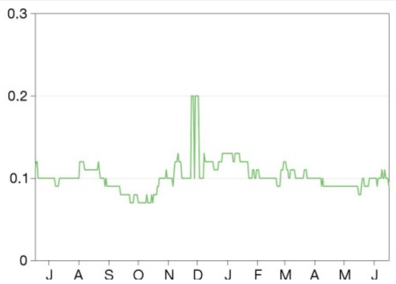
On 2.5x TTM EV/Sales, Snakk sits at a substantial discount to longer-established growth phase global peers, which trade on 4.7x. Were the price to move to parity as the market familiarises itself with the company and approves its growth strategy, it would imply a share price of 12.4 cents. This is backed by our DCF, which derives a value of around 13.1 cents based on 35% medium-term market growth.

17 June 2014

Price	**NZ$0.09**
Market cap	**NZ$24m**

Net cash (NZ$m) at end FY14	6.4
Shares in issue	265.1m
Free float	64%
Code	SNK
Primary exchange	NZX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	12.5	(12.6)	(25.0)
Rel (local)	13.1	(13.3)	(33.2)
52-week high/low		NZ$0.20	NZ$0.07

Business description

Snakk Media helps brands find and reach consumers using apps, games and social media on their smartphones, tablets and other smart screens, generating revenue every time it successfully targets and delivers an ad across its networks.

Next events

Detailed results	31 July 2014
AGM	16 September 2014

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Building the infrastructure

Over the course of the last 18 months, the group has extended its infrastructure from its original base in Sydney through opening offices in Victoria (Q412), Queensland (April 2013) and Auckland (May 2013). 85% of revenue was generated in Australia in FY14. Following earlier indications that the management team was spending considerable time and effort in determining the best way to gain a foothold, Snakk has now announced that it is opening an office in Singapore as a gateway into broader Asia-Pacific markets. Specifically, management refers to opportunities in Thailand, Hong Kong, Indonesia and Malaysia. To date, the group has been servicing its Asian campaigns from its Australian offices and has delivered campaigns for clients including H&M, Samsung and HP.

Snakk is therefore looking to build a substantial business beyond Australasia and across the Asia-Pacific region. To do this successfully, it must offer its agency and brand clients market-leading marketing tools that leverage the capabilities of smart screen and mobile technology. Rather than developing its own tools and technologies, its business model is predicated on cherry-picking from the best available globally and securing local licences.

Expanding the technology base

As part of its broader business model, the group has previously indicated that it would look to build up an investment portfolio where it could share in the application of new technologies. It has recently announced two such investments, both of less than NZ$250k, in San Francisco-based Moasis and in New York-based Plyfe. The former has a proprietary location targeting technology allowing advertisers to send targeted messages to any internet-connected device using a patented Geo-Grid technology to identify and target individuals in real time through a cell-based approach with much greater accuracy than 'traditional' geo-fencing. This is helping improve click-through rates and increase post-click conversions well ahead of industry norms. Moasis has partnered with the various people across regions, now including Snakk in Asia Pacific, where the company previously had no exposure. Snakk has exclusive rights to the technology in Australasia, with New Zealand to become the first market outside the US to get access to the platform. The second investment is in Plyfe, a VC-backed cloud-based ad technology platform that adds interactive, game-like and social elements for customer engagement across platforms. Snakk will have exclusive rights to offer the technology throughout the Asia-Pacific region. Plyfe was co-founded by Jeff Arbour in 2011, who started the New York office of The Hyperfactory, and Derek Handley has been an advisor to the company since 2012.

Expanding the commercial team

As well as the recruitment of Michael Gooch, who will lead the Singapore-based operations, Snakk has also recently recruited a group commercial manager responsible for overseeing the sales operations. Before joining Snakk, he was digital manager for News Corp's The Australian, and before that led agency sales at Komli Media, which has a strong presence across Asia Pacific, bringing in a good range of industry contacts and knowledge. Michael Gooch joins Snakk from OPT, a leading Japanese digital media agency, which he joined after it bought Catcha Digital Asia, where he had led the expansion into Singapore. Before Catcha, he was with Haymarket in the UK.

Additional costs push back profitability

We will publish forecasts for FY16 after the audited results become available at the end of July, but we now anticipate a delay in break even beyond our original target of FY15 due to the additional investment in overhead. We now state the figures with the share-based payments stripped out, as they are sufficiently meaningful to distort the figures.

Exhibit 1: Summary changes to forecasts

	EPS			PBT			EBITDA		
	Old	**New**	**% chg.**	**Old**	**New**	**% chg.**	**Old**	**New**	**% chg.**
2013	(0.4)	(0.4)	N/A	(1.4)	(0.9)	N/A	(0.9)	(0.9)	N/A
2014	(0.5)	(0.5)	N/A	(1.2)	(1.4)	N/A	(1.4)	(1.7)	N/A
2015e	0.0	(0.2)	N/A	0.2	(0.7)	N/A	0.0	(1.0)	N/A

Source: Company, Edison Investment Research

The year-end indicated cash figure of NZ$6.4m is better than our expected NZ$5.1m, giving comfort that the investment programme does not compromise the group's ability to fund the working capital needed to expand. We will only build actual expansion into the model as and when it occurs, but for now we have made broad assumptions as to the likely annualised costs of the additional overhead that has been taken on over recent months. However, this has led to the downward revision of our EBITDA and earnings numbers for the current financial year. The investments should start to pay off later in FY15 as they start to generate more meaningful revenues but, more importantly, they suggest the scale of the longer-term opportunity that Snakk can grasp.

Audited results will be released on or before 31 July, with the AGM scheduled for 16 September.

Exhibit 2: Financial summary

NZ$'000s	2012	2013	2014	2015e
31-March	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	1,993	3,654	7,056	11,421
Cost of Sales	(886)	(1,746)	(4,176)	(7,195)
Gross Profit	1,106	1,909	2,880	4,226
EBITDA	(624)	(903)	(1,678)	(1,049)
Operating Profit (before amort. and except.)	(632)	(918)	(1,692)	(1,065)
Intangible Amortisation	0	0	0	0
Exceptionals	0	0	0	0
Share-based payments	0	(292)	(482)	(500)
Operating Profit	(632)	(1,209)	(2,174)	(1,565)
Net Interest	16	19	289	385
Profit Before Tax (norm)	(615)	(898)	(1,404)	(680)
Profit Before Tax (FRS 3)	(615)	(1,190)	(1,885)	(1,180)
Tax	(9)	0	0	0
Profit After Tax (norm)	(625)	(871)	(1,404)	(680)
Profit After Tax (FRS 3)	(625)	(1,190)	(1,885)	(1,180)
Average Number of Shares Outstanding (m)	159.8	197.9	254.3	262.9
EPS - normalised (c)	(0.4)	(0.4)	(0.6)	(0.3)
EPS - normalised and fully diluted (c)	(0.4)	(0.4)	(0.5)	(0.2)
EPS - (IFRS) (c)	(0.4)	(0.6)	(0.7)	(0.4)
Dividend per share (c)	0.0	0.0	0.0	0.0
Gross Margin (%)	55.5	52.2	40.8	37.0
EBITDA Margin (%)	(31.3)	(24.7)	(23.8)	(9.2)
Operating Margin (before GW and except.) (%)	(31.7)	(25.1)	(24.0)	(9.3)
BALANCE SHEET				
Fixed Assets	11	13	13	48
Intangible Assets	0	0	0	0
Tangible Assets	11	13	13	48
Investments	0	0	0	0
Current Assets	1,803	1,575	9,045	9,520
Stocks	0	0	0	0
Debtors	555	923	2,682	4,449
Cash	1,243	629	6,363	5,071
Other	5	22	0	0
Current Liabilities	(914)	(1,363)	(2,909)	(4,638)
Creditors	(914)	(1,363)	(2,909)	(4,638)
Short term borrowings	0	0	0	0
Long Term Liabilities	0	0	0	0
Long term borrowings	0	0	0	0
Other long term liabilities	0	0	0	0
Net Assets	900	225	6,148	4,929
CASH FLOW				
Operating Cash Flow	(95)	(1,432)	(1,202)	(1,438)
Net Interest	17	24	289	385
Tax	0	0	0	0
Capex	(18)	(17)	0	(50)
Acquisitions/disposals	0	0	(119)	0
Financing	1,268	812	6,807	0
Dividends	0	0	0	0
Net Cash Flow	1,172	(613)	5,775	(1,103)
Opening net debt/(cash)	(70)	(1,243)	(629)	(6,363)
HP finance leases initiated	0	0	0	0
Other	0	0	(41)	0
Closing net debt/(cash)	(1,243)	(629)	(6,363)	(5,260)

Source: Company accounts, Edison Investment Research

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