EDISON

Snakk Media

Q4 revenues

Upward mobility

Media

Snakk Media is rapidly building its revenues in the fast-growing mobile advertising market in Australasia and now Singapore. By using the pick of technologies available globally on a licensed basis, it can continue to expand without the risks of developing its own technology, while offering publishers and advertisers highly targeted (higher-value) views. The group has been investing in its team, including its first CFO, recently recruited from Google, to support a larger and more complex business. This may delay profitability, but extends the potential reach. The share price does not yet reflect the value of the opportunity.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
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	12.0	(2.6)	(0.9)	0.0	N/A	N/A
03/16e	19.2	(1.5)	(0.6)	0.0	N/A	N/A

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

Targeting geo-replication

Snakk has a growing reputation with leading Australasian media agencies for delivering high-quality campaigns for major brand owners across mobile channels. Revenues have continued to build strongly in Australia (its original territory), with New Zealand showing a similar growth trajectory. The Singaporean mobile ad market is underdeveloped, despite high smartphone and tablet penetration, and Snakk has a good opportunity to establish a strong market position, leveraging its existing agency and brand relationships, supported by its Australian infrastructure. It has also recently started up a business representing premium publishers, with ESPN won as the inaugural client.

Investment phase for next step up

In its early stages, Snakk had a classic entrepreneurial set up, with much flexibility. The scale of the business and its current opportunities now demand that a greater degree of formality and organisational structure is put in place. These systems and procedures should ensure that the next stage of development is a controlled process and should equip the group for further geographic expansion within Asia-Pacific. Not all of the additional ongoing expenditure (mostly investment in headcount) is therefore revenue generating. Our forecasts indicate higher losses in the short term, but with the potential for greater returns further out.

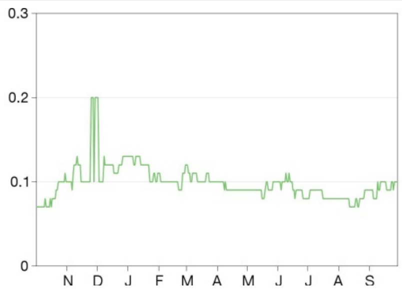
Valuation: Not reflecting value of opportunity

Even given its small size and early stage, on 2.5x EV/TTM sales Snakk sits at an overly large discount to a broad global peer group of quoted mobile solutions and digital advertising companies, trading at 3.1x. Looking also at sector transactions and at a DCF calculated on 35% medium-term growth assumptions, a price of between 11 and 15 NZ cents would be in line with the market, implying a degree of uplift from the current price.

30 September 2014

Price	**NZ$0.099**
Market cap	**NZ$26m**
Net cash at end March 2014 (NZ$m)	6.4
Shares in issue	265.1m
Free float	63.5%
Code	SNK
Primary exchange	NZAX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.2	17.9	25.3
Rel (local)	5.0	17.1	18.8
52-week high/low		NZ$0.15	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 that it successfully targets and delivers an ad across its networks.

Next events

AGM	End August 2014
Interim results	Early December 2014

Analysts

Fiona Orford-Williams	+44 (0)20 3077 5739
Jane Anscombe	+44 (0)20 3077 5740
Bridie Barrett	+44 (0)20 3077 5700

media@edisongroup.com

Edison profile page

Snakk Media is a research client of Edison Investment Research Limited

Investment summary

Company description: Smart screen advertising facilitator

Snakk Media is a New-Zealand-based facilitator for smart screen advertising (ie mobile and tablet) that listed on the NZAX in March 2013. Initially operating solely in Australia, it added operations in New Zealand in 2013 and is developing its reach in the broader APAC markets with a view to developing significant business, with recent moves made in Singapore to establish a foothold. There are three key elements to the business:

- aggregating audiences through partnerships with major media owners, networks and app developers for brand owners and/or media agencies, for which Snakk is paid a margin;
- providing the technology to implement campaigns by integrating the relevant software into publishers' and media owners' sites and applications in order to serve the ads, for which it is paid a royalty. These technologies are cherry-picked worldwide and are generally under exclusive or preferred regional licences; and
- selling advertising space for premium publisher titles appearing on mobile apps and m-sites.

The group is also building an investment portfolio in related technologies.

Valuation: Still early days

With the group still at an early stage of its corporate journey, putting a value on its activities based on earnings is not feasible. We have looked at the business compared with other quoted mobile marketing and ad tech businesses and with recent deals done within the broader space, with the only available metric being that of enterprise value to trailing 12-month sales revenues. We have also sense-checked this against a DCF, but are reluctant to use this alone as a basis for valuation given the volatility of the conclusions to tweaking of the inputs. On 2.5x EV/TTM sales, the group sits at an overly large discount to the broader peer group on 3.1x, even given its small size and early stage. Our chosen methodologies indicate that a price of between 11 and 15 NZ cents would be in line with the market, implying a degree of uplift from current levels.

Financials: Breakeven point dependent on investment levels

As the business has developed, our estimation of when Snakk Media will reach profitability has been pushed further out, but this is purely a reflection of the additional investment that has been put into place as the opportunity has expanded. The group did show a small operating profit in the final quarter of calendar 2013, but this was ahead of adding additional senior members of the team and in the strongest period for advertising spend. With the recent expansion into Singapore and putting in the structures to support a more substantial organisation, our forecasts have been revised to reflect higher top-line growth, coupled with higher costs. The NZ$6.5m raised in the share placing plan in May 2013 has given the group the financial resilience to support this investment and the group had net cash resource of NZ$6.4m at end March 2014.

Sensitivities: Investment vs growth

The pace of recruitment and expansion has the most impact on the financial outturn, alongside the group's ability to build the top line. Success against management's objectives also depends crucially on building and developing relationships with media agencies, the underlying brand owners and the media owners/publishers and app developers, as well as retaining the services of its best salespeople. The group's progress will be affected by technological developments, the continuance of the trend of rising smartphone penetration, and people's willingness to engage more with brands. The economic backdrop will inevitably affect consumer confidence and marketing budgets.

Company description: Smart advertising

Snakk Media is a New-Zealand-based facilitator for smart screen advertising (including mobile/tablet). It listed on the NZ Stock Exchange in March 2013, not raising any money at that stage, but with the intention of further fund-raising as investment opportunities arise. This transpired relatively soon after flotation, with a substantially over-subscribed share placing in May 2013 (alongside a NZ$0.6m private placing) that raised NZ$6.5m, scaled back from NZ$7.5m against an initial target of NZ$2m. Shares were placed at 12c, against a then price of 15-15.5c.

Snakk has offices in Sydney, Melbourne (opened Q412), Brisbane (April 2013) and Auckland (May 2013) and most recently in Singapore (June 2014). The New Zealand office has grown particularly fast, with the benefit of the experience earned in Australia, and now accounts for 15% of total pro-forma group revenue (July 2014). There are currently 35 full-time employees, 12 of whom are in business development, compared with a total of 16 in April 2013. 29 are based in Australia, three in Singapore and three in New Zealand. This total is continuing to expand, with a group commercial director now in situ and functional teams being put together as the business overall grows. As of 8 September, the group now also has its first CFO in place, Bob Mohan, who has joined from Google, where he built extensive experience in M&A and most recently led the Asia Pacific accounting team. Snakk is now at that juncture in its growth where it requires more structure both in its operational and its financial arrangements to ensure efficiency and Bob's appointment gives reassurance that this will be both efficient and scalable. Hall Capital was appointed by the group in August to support its efforts to accelerate growth, as well as to look at a potential further listing on the ASX and/or further round of fund-raising or acquisitions in Asia. The additional costs of putting this in place are reflected in our financial model, although the costs of physically moving into new territories will only be added when those moves are made. Our model and consequent thoughts on valuation are grounded on the business as now structured.

The group has a very strong permeating culture of social responsibility and publicly aligns itself to the aims of 'profit with purpose'. As well as running the smart screen advertising technology business, the group also invests in other relevant technology opportunities and is starting to build an investment portfolio. The group has also made a small interest-bearing loan to a micro-finance foundation in the South Pacific Islands. Snakk Media has obtained accreditation as a B Corporation (acknowledging its social and environmental performance standards), the first publicly quoted business to achieve this status.

Aggregating audiences and providing supporting technology

The core of Snakk's business is the development and placement of highly targeted advertising within apps. It makes money each time a targeted ad is served across its networks of mobile websites, apps and games. There are two key elements to the business model: aggregating audiences through partnerships with major media owners, networks and app developers for brand owners and/or media agencies, for which Snakk is paid a margin; and providing the technology to implement campaigns by integrating the relevant software into publishers' and media owners' sites and applications in order to serve the ads, for which it is paid a royalty. These technologies are cherry-picked worldwide and are generally under exclusive or preferred regional licences. The potentially heavy development costs and the risk of technology failure and/or non-adoption is therefore at one remove, while the potential to access relevant opportunities in such a fast-moving environment in a timely manner is improved.

Within the audience aggregation element, the focus is increasingly on targeting specific functional audiences, pulling the relevant information from the apps with which the individuals engage. This targeting is increasingly incorporating geo-location information, often tallying it with other data such as time of day, which optimises the likelihood of click through and subsequent action on the part of the consumer. Response rates from this type of campaign are significantly higher than those from more 'traditional' campaigns.

The group has already built an impressive client list, with recent campaigns run for the likes of Samsung, Adidas, Air New Zealand and Vodafone. On the publishers' side, the group is winning market share, with some substantial names recently coming on board, which are undisclosed due to commercial sensitivities.

In September, Snakk set up a new division to serve the market from the other end by representing premium publisher titles, trading under the name of **Represent Media**. It has signed ESPN on an exclusive basis and will sell that client's ad inventory across mobile apps and websites, leveraging the internal skillset that has been built in creative and solutions.

Key competitors in the Australian market are InMobi, Big Mobile and Mobile Embrace. The first two of these are privately owned. InMobi is Indian-based and backed by Soft Bank and Kleiner Perkins Caulfield & Byers and is the largest player in the Australian market in terms of its mobile advertising network and advertising volumes, but is general delivery and not targeted. Big Mobile is a privately owned Australian company, while Mobile Embrace is quoted on the ASX and has business activities in both mobile payments and advertising.

Increasing market share and extending geographies

The group has a strong record of building its revenues organically, but may well pursue acquisition opportunities if that gives a more direct and efficient route to establishing market presence. Growth will be targeted through a combination of the following strategies:

- Increase market share of existing markets, through investing further in the sales effort under new Group commercial director Luke Williams, either organically or by acquisition.
- Geographic expansion into other Asian markets. While the largest advertisers are often the global FMCG companies, gaining a hold in new markets will necessitate building relationships with the incumbent media agencies and local media owners. Snakk has to date chosen the organic, rather than the acquisitional route, and it has now announced the opening of an Asian headquarters in Singapore under the oversight of Michael Gooch, who has been recruited from OPT Inc., a leading Japanese digital media agency. He had previously been at Catcha Digital Asia helping its push into Asia, and before that at Haymarket Publishing in the UK. There are now three sales employees working form this office. Singapore is seen as an important 'decision gateway' for the region, with many media agencies and brands having substantive presences there. While the absolute size of the individual market may not be among the highest in Asia-Pacific (see Exhibit 3 below), the potential budgets to be accessed are substantially higher. The Singapore operation, if successful, is likely to prove a springboard to other territories such as Thailand, Hong Kong, Indonesia and Malaysia. Recruiting the right individuals to forge and nourish the media and brand relationships is crucial to the success of the overseas expansion. The costs are therefore predominantly variable rather than needing heavy investment in offices and technical infrastructure.
- Extend further beyond display. Serving banner-type displays is the 'plain vanilla' option for advertising on mobile. However, this is effectively simply transferring an existing advertising model – that of online – to a different platform, rather than using the core attributes of the platform to enhance the user experience. Snakk already offers:
  - Agency Brand Solutions: precision targeting, delivering, analysing and optimising location-based marketing campaigns.
  - Merchant/Small Business Solutions: mFlyer™ giving smaller businesses the tools to deliver relevant local promotions directly to customers' mobile devices and get into the mobile ecosystem.

  - Reseller/Publisher Solutions: a co-branded white-label solution simplifying local distribution, ad inventory and site monetisation.
- Add product licences, adding functionality and cherry-picking developing ideas and technologies, without having to fund development costs or run the risk of projects not reaching the light of day.
- Add to the portfolio of strategic investments, either of direct relevance to the group and/or its clients, or under a broader investment brief. Two investments were announced in May 2014, with Snakk taking stakes in San Francisco-based Moasis and in New York-based Plyfe, both of less than NZ$250k.
  - Moasis has a proprietary location-targeting technology allowing advertisers to send targeted messages to any internet-connected device, including phones, tablets, laptops and digital billboards. Its platform uses 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. The platform is helping improve click-through rates and increase post-click conversions well ahead of industry norms. The company has partnered with the various local partners in different regions, now including Snakk in Asia-Pacific where it previously had no exposure. It has granted Snakk exclusive rights to the technology in Australasia, with NZ to become the first market outside of the US to get access to the platform.
  - Plyfe is a VC-backed cloud-based ad technology platform, adding interactive, game-like and social elements for customer engagement across platforms. This investment accompanies an arrangement that includes exclusive rights to offer the technology throughout the APAC 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.

Broadening management team

Snakk's management team is headed up by co-founder Derek Handley, a well-known figure in Australasian new media and technology. A New Zealand-based entrepreneur who has previously set up businesses, Derek is best known for building international mobile marketing company The Hyperfactory with his brother Geoffrey from 2001, for brands such as Coca Cola, Kraft and Intel, selling to US major Meredith Corporation (NYSE: MDP) in summer 2010 on undisclosed terms. Alongside Sir Richard Branson, Derek has been a driving force behind The B Team, an organisation dedicated to improving the social and environmental performance of businesses in addition to the pursuit of profit. He owns Far East Associated Traders, which in turn holds 15.4% of Snakk's equity.

The executive team is led by Mark Ryan, now formally appointed as CEO as of 12 April, who has extensive business management experience in private and public IT, digital services, advertising agencies and new media companies in international, Asia-Pacific and Australian businesses. He was the first COO for Ogilvy Australia, then Australia's largest agency, and had previously completed the agency restructure of Euro RSCG Australia and was made COO in a newly created role. He has now been joined by CFO Bob Mohan, who has recently joined from Google, as described above. The general manager is Andrew Jacobs, a co-founder of Snakk Media and a leading figure in mobile media in Australia, having joined The Hyperfactory in 2008. He is a regular speaker and panellist at new screen conferences across the Asia-Pacific region. Also from The Hyperfactory team is Max Flanigan, Snakk's technology and partners manager. He is a specialist in media technology with a primary focus on mobile, including product, management, strategy, business development, partnerships, vendor analysis and marketing. Before The Hyperfactory, Max was group portfolio manager – head of mobile at APN, managing key digital titles and its mobile portfolio. The new Represent Media division is headed up by Jamie Hollebone, who has extensive experience from both advertiser and client perspectives, most recently as head of brand and corporate sales at Parramatta National Rugby League Club.

Luke Williams is Snakk's first group commercial manager – responsible for overseeing the sales operations. Prior to 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. As well as the recruitment of Luke Williams, the group has recently recruited Michael Gooch, who will lead the Singapore-based operations. He joined 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. Prior to Catcha, he was with Haymarket in the UK. Jason SanDiego is head of AdOps, recruited form global mobile advertising platform LeadBolt and group technology director is Michael Kearney, who joined from DOCOMO InterTouch. The team in New Zealand has been boosted by the recruitment of a country manager, Alan Oliver, who has joined from The Radio Network, and by a further account manager.

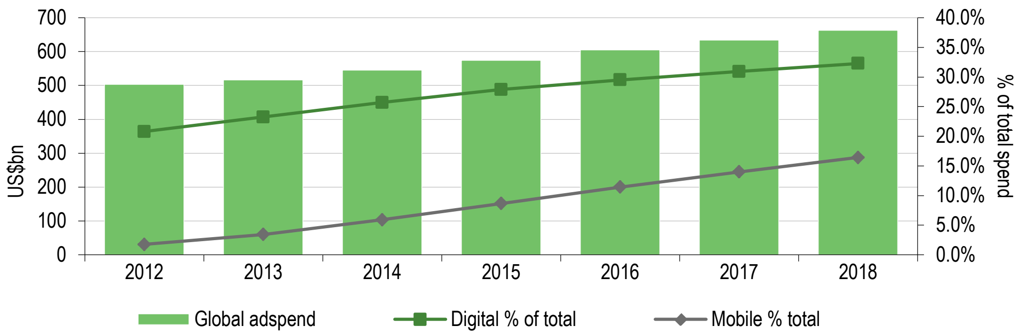
The non-executives on the team are Michelle Kong, the general manager of portfolio strategy and business development at Telecom New Zealand, and Tim Alpe, the CEO of JUCY, one of Australasia's fastest-growing independent tourism companies.

Mobile ad spend continues its fast trajectory

Blurring of the boundaries

Rapid adoption of smartphones and tablets globally has been leading to dramatic changes in the consumption of media. This is not yet been fully reflected in the allocation of marketing dollars, which are still heavily weighted to traditional media such as television and print. The rebalancing is underway, however, initially leading to much faster growth rates in online with the rate of growth of mobile now taking up the running, as shown in the exhibit below. Initially, usage of mobile was similar to consumer behaviour on desktop, with search the key focus of spend of ad dollars. Increasingly, though, there is a blurring of the boundaries between the use of search engines and the use of apps. The 'rules' for adspend focused on search optimisation are being recalibrated, with the fragmentation of the market opening up new opportunities.

Exhibit 1: Forecast market for adspend, showing % digital and mobile



Source: eMarketer

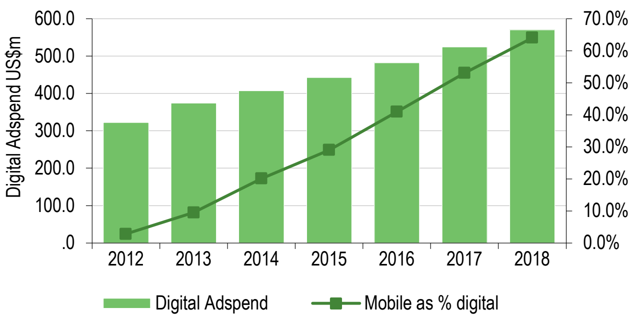
These constant technological advances are allowing brands to nurture a far closer relationship with consumers, increasingly in real-time, offering added-value and tangible benefits (such as coupons and vouchers) using greater interactivity and engagement.

Asia-Pacific mobile adspend set for strong uplift

Globally, a recent eMarketer survey indicates that smartphone penetration will have reached 24.5% of the world's population in the current year. Consumers in Asia-Pacific will account for more than half of global smartphone users in 2014, with the highest penetration worldwide in South Korea, where it reached over 50% in 2012. Australia broke this boundary the following year, with Japan likely to follow in the current year. China is not likely to hit this level until 2018, but the sheer size of the country means that its smartphone user base is already the largest in the world at 521.7m.

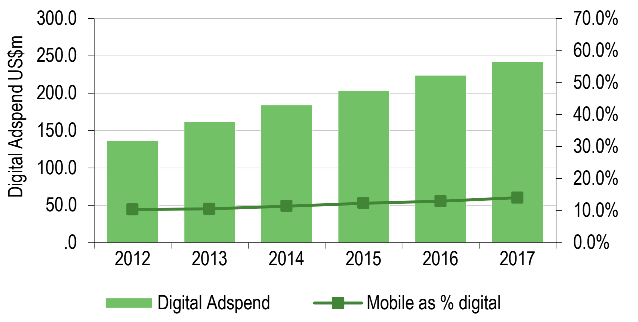
Within the Australian market, mobile advertising expenditure (including Mobile Display and Mobile Search) grew 4.9% to $163.6m in Q114 (+21% annualised), making up 15.3% of total online advertising spend (against 14.3% in Q413). The latest Frost & Sullivan report indicates mobile forecast to grow at a CAGR of 39% between 2013 and 2018. By the end of that period, ads served on tablets are predicted to account for 70% of overall mobile advertising expenditure, with the balance accounted for by smartphones.

Exhibit 2: Australia digital/mobile adspend



Source: eMarketer/Frost & Sullivan

Exhibit 3: Singapore digital/mobile adspend



Source: PWC Global Outlook Forecast

The Singaporean market is at an earlier stage of development in terms of advertising, but with one of the highest levels of global smartphone penetration, estimated at up to 87%. The comparatively small overall size of the market, though, means it remains below the radar for the large, global providers.

Sensitivities

With any fast-growing and fast-changing market, the ability to forecast for any enterprise in any specific financial reporting period is inevitably compromised. In addition, Snakk Media is still at an early stage of its corporate development and is in a constant process of change and adaptation. Any further fund-raising, international expansion (whether by acquisition or through more organic growth) or variation of the product offering could have a relatively dramatic effect on the financial outturn. In reaching our numbers as published in this note, we have made certain assumptions about the growth in the market and Snakk's achievable market share. What we have not done is make any assumptions about further corporate activity, whether relating to acquisitions or an acceleration of the expansion ambitions funded by further issues of equity.

In Edison's view, the key sensitivities are:

- Management's ability to execute the growth strategy, particularly in regard to developing the business in new geographic territories.
- The ever-present competitive threat.

- Success in recruiting (and retaining) suitable sales individuals, particularly those with the skill sets to open successful new branches and territories, coupled with the retention of other key staff.
- Maintaining and building relationships with stakeholders, including key media agencies responsible for the brands' budget allocations, key content owners and app developers, and the technology companies around the globe developing the new product offerings licensed in by Snakk.
- Developing the investment portfolio and realising value from it, whether financial or commercial or both.
- With the expansion into new markets, Snakk will now also have to deal with currency fluctuations beyond the A$/NZ$ exchange rate.
- Opening into new markets obviously increases the group's risk profile, but also opens up the possibilities of faster growth opportunities.

Additionally, realising the group's ambitions will depend on:

- the health of the Australian marketing environment, itself dependent on economic conditions and consumer sentiment;
- a continuation of the trend for higher penetration of smartphone usage;
- the speed at which the discrepancy of marketing spend between mobile usage and other media consumption channels is corrected;
- technological enhancements in content and delivery, such as the increasing use of interactive rich media, allied to increasing use of HTML5, the opportunities opened by other open web developments; and
- the possibility of specific customers having impaired ability to pay. An impairment of NZ$154k on trade receivables was taken in the FY14 accounts. However, as the client roster grows, the degree of risk for any one client will inevitably decrease.

Valuation

The primary influences on the stock since its flotation in spring 2013 have been technically-based rather than reflecting trading progress. Issues of shares and options, coupled with the disposals of stakes by SeaDragon and Snakk Trustee, each of which held 12.1% stakes at the time of our April 2013 report, (and the transfer of shares by co-founder Derek Handley to a charitable trust in a combination of on- and off-market transactions) have all combined to hold the share price back. Management made clear from the start that it would raise additional funds when required to invest in the business, rather than raise a 'war chest' on the float. This may continue to weigh on the share price, despite the clearing of the earlier stock overhang and the progress being made in growing the top line and moving towards achieving sustainable profitability. Snakk has appointed Hall Capital, with the evaluation of an Australian listing high on their task list.

Snakk Media is still a very young company and our financial model shows it moving towards profitability. The breakeven point is notably further out than we had initially anticipated, but for the reason that investment in scaling up the business has been greater. However, the rate and pattern at which the group scales up its investment may push this breakeven point even further out. Conventional valuation methodologies are therefore of limited relevance and the key metric that we are left with as a comparative measure is revenue.

Quoted peers thin on the ground

The majority of the ad/mobile tech sector is either within larger organisations or else is privately owned (and usually VC-backed). This makes a traditional peer based valuation a poor reflection of the market worth. Those companies in the space that are quoted have also not necessarily had a smooth experience in trading and financial performance since listing. The longer standing quoted stocks, Millennial Media and Velti, have retreated from US$23.50 and US$13.40 respectively in March 2012 to their current levels of US$1.94 and US$0.02, representing around 0.3x EV/FY13 sales.

Using the broader categories described within Software Equity Group's regular market valuation updates, mobile solutions companies (stripping out those companies not in the growth phase) trade on an EV multiple of 2.8x TTM revenues, while CRM and marketing tech stocks trade on 3.3x TTM. As Snakk's business model crosses these categories, using a figure of 3.1x, halfway between the two seems reasonable. We would, however, discount the price to reflect the lack of liquidity and market familiarity of the stock. Setting this discount at 10% gives a Snakk valuation of NZ$0.11.

Mobile ad-tech deals in the 3-5x revenue band

Two of the most recent high-profile deals in the adtech space are Yahoo's acquisition of Flurry (a mobile ad and analytics company) and Facebook's purchase of LiveRail, which runs an online video advertising platform well suited to mobile. Twitter had also purchased a mobile ad network, ad serving business, and real time bidding exchange MoPub in September 2013 in an all-stock deal.

While the prices paid and the historic financials for the acquired companies are not publicly available, there is sufficient anecdotal evidence to suggest that the deals were struck between three and five times historic net revenues, averaging at 3.8x, which will naturally include an element of bid premium. If we assume that this is worth about a 25% uplift to reflect change of control, then the implication is that a reasonable comparative valuation would be around 2.9x historic revenues.

Valuing Snakk Media on this basis would imply a share price of NZ$0.11.

DCF highly susceptible to changes in assumptions

Exhibit 4: DCF under various mid-term growth rates (NZc)

		Growth 2016-20				
		20%	**25%**	**30%**	**35%**	**40%**
WACC	12.5%	16.5	20.0	24.1	28.6	33.7
	15.0%	11.7	14.3	17.2	20.6	24.3
	17.5%	8.6	10.6	12.8	15.4	18.2
	20.0%	6.5	8.1	9.8	11.8	14.0
	22.5%	5.0	6.3	7.7	9.3	11.1

Source: Edison Investment Research

With the timing between the taking on of additional overheads and generating the revenues to cover them still in a state of flux, the short-term outlook for breakeven and subsequent profitability remains uncertain. Modelling into the medium term also depends on taking views on the likely success of the build-up of the group's Singaporean base, now with three sales individuals. A valuation based on the present value of future cash flows has therefore to be viewed with particular acknowledgement of its imprecision. We have therefore presented the data under a series of assumptions on mid-term growth and WACC. At 35% assumed revenue progress pa between 2016 and 2020 and at a WACC of 17.5%, the DCF implies a valuation of NZ$0.15, a figure at a modest premium to that derived from the broad peer group comparison and higher than that of sector deals.

Financials

Exhibit 5: Changes to forecasts

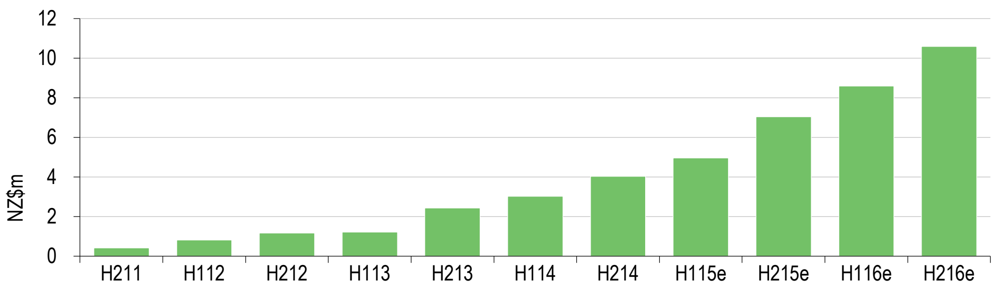
	EPS		PBT		EBITDA	
	Old	New	Old	New	Old	New
2014	(0.5)	(0.5)	(1.4)	(1.4)	(1.7)	(1.6)
2015e	(0.2)	(0.9)	(0.7)	(2.6)	(1.0)	(3.0)
2016e	-	(0.6)	-	(1.5)	-	(1.7)

Source: Company accounts, Edison Investment Research

While we adjusted our forecasts at the time of the June update, further recruitment (as described above) means that the rate of burn is again faster than we had anticipated. The timing on increasing overheads against revenue generation is very difficult to pre-judge at this early stage of this type of company's development. Opportunities need to be grabbed to bring on board suitable individuals as they become available rather than wait until the company can truly, financially, afford them. This makes judging when the group is likely to move into profit a more than unusually difficult task and the horizon has now moved out several times, which also serves to emphasise how the scale of the opportunity that the group is attempting to grasp is also increasing. A marked step-up in revenues in Q314 (ie the quarter to end December 2013) generated a small profit for the period, demonstrating the susceptibility of financial performance to timing of spend. Q1 revenues for the current year at NZ$2.01m are running in line with our forecasts.

We have been relatively cautious in how with have anticipated the Singaporean venture will develop. It is still very early days and we suspect that if it goes strongly, there will be a greater need to recruit further individuals to support the business effort on the ground. Support, though, will continue to be provided from the main base of activity in Australia.

Exhibit 6: Half yearly revenue progression



Source: Company accounts, Edison Investment Research

Revenues are accumulated from a large number of relatively small deals and although there is a strong element of repeat business, there is little that could be described as true recurring revenue. The ability to generate repeat business will crucially depend on the success of the previous campaign with any particular client. Media costs are roughly equivalent to half the group's income, so we have not assumed any great variation in the gross margin. The bulk of the business expenses relate to personnel costs, with marketing, advertising and PR and rent coming in at less than 3% of sales.

Cash absorption to build base

Breaking into a cash-generative position is not imminent, but our model indicates that at current rates of burn, the group should have sufficient resource to cope without further funding within the forecast period. However, on listing, Snakk did not raise any money, preferring a model where funds are raised nearer to the time that they are required. Having listed at 6.5 cents (and the shares initially went to a substantial premium), the group announced a share placing plan shortly afterwards at 12 cents, which was substantially oversubscribed. Alongside a private placing that generated NZ$0.6m, this raised NZ$5.9m, which together has given the group the firepower to see it through this extended build-up phase.

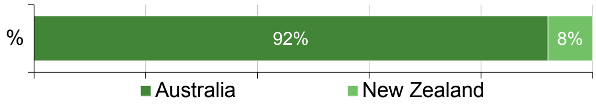
Limited assets on the balance sheet

As is typical of the industry and such an early-stage company, there is little to the balance sheet beyond the working capital tied up in the business, with no owned offices or physical IT infrastructure. Given the nature of the business, this is likely to remain the position. Snakk Media had a cash balance of NZ$6.4m at the year end.

Exhibit 7: Financial summary

NZ$000s	2012	2013	2014	2015e	2016
Year end 31 March	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,993	3,654	7,056	12,000	19,200
Cost of Sales	(886)	(1,746)	(4,176)	(7,560)	(9,096)
Gross Profit	1,106	1,909	2,880	4,440	10,104
EBITDA	(624)	(903)	(1,568)	(2,960)	(1,696)
Operating Profit (before amort. and except.)	(632)	(918)	(1,583)	(2,975)	(1,712)
Intangible Amortisation	0	0	0	0	0
Exceptionals	0	0	0	0	0
Share-based payments	0	(292)	(482)	(500)	(500)
Operating Profit	(632)	(1,209)	(2,065)	(3,475)	(2,212)
Net Interest	16	19	173	385	220
Profit Before Tax (norm)	(615)	(898)	(1,410)	(2,590)	(1,493)
Profit Before Tax (FRS 3)	(615)	(1,190)	(1,891)	(3,090)	(1,993)
Tax	(9)	0	0	0	(200)
Profit After Tax (norm)	(625)	(871)	(1,410)	(2,590)	(1,693)
Profit After Tax (FRS 3)	(625)	(1,190)	(1,891)	(3,090)	(2,193)
Average Number of Shares Outstanding (m)	159.8	197.9	254.3	265.1	265.1
EPS – normalised (c)	(0.4)	(0.4)	(0.6)	(1.0)	(0.6)
EPS – normalised and fully diluted (c)	(0.4)	(0.4)	(0.5)	(0.9)	(0.6)
EPS – (IFRS) (c)	(0.4)	(0.6)	(0.7)	(1.2)	(0.8)
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	55.5	52.2	40.8	37.0	52.6
EBITDA Margin (%)	-31.3	-24.7	-22.2	-24.7	-8.8
Operating Margin (before GW and except.) (%)	-31.7	-25.1	-22.4	-24.8	-8.9
BALANCE SHEET					
Fixed Assets	11	13	597	632	690
Intangible Assets	0	0	0	0	0
Tangible Assets	11	13	13	48	107
Investments	0	0	584	584	584
Current Assets	1,803	2,190	8,602	7,367	7,888
Stocks	0	0	0	0	0
Debtors	555	923	2,179	3,669	5,811
Cash	1,243	1,244	6,363	3,698	2,077
Other	5	22	60	0	0
Current Liabilities	(914)	(1,363)	(2,909)	(4,997)	(8,076)
Creditors	(914)	(1,363)	(2,909)	(4,997)	(8,076)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	0	0	0	0	0
Long term borrowings	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
Net Assets	900	840	6,290	3,001	503
CASH FLOW					
Operating Cash Flow	(95)	(817)	(1,197)	(3,000)	(1,700)
Net Interest	17	24	184	385	220
Tax	0	0	0	0	(66)
Capex	(18)	(17)	(14)	(50)	(75)
Acquisitions/disposals	0	0	(307)	0	0
Financing	1,268	812	6,453	0	0
Dividends	0	0	0	0	0
Net Cash Flow	1,172	2	5,119	(2,665)	(1,622)
Opening net debt/(cash)	(70)	(1,243)	(1,244)	(6,363)	(3,698)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(1,243)	(1,244)	(6,363)	(3,698)	(2,077)

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
Level 2 91 Campbell St Surry Hills, NSW 2010 Australia +61 410 413 863 www.snakkmedia.com	 Figures based on last year's accounts.

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 12-16e	N/A	ROCE 15e	773%	Gearing 15e	N/A	Litigation/regulatory	○
EPS 14-16e	N/A	Avg ROCE 12-16e	437%	Interest cover 15e	N/A	Pensions	○
EBITDA 12-16e	N/A	ROE 15e	N/A	CA/CL 15e	1.5x	Currency	◖
EBITDA 14-16e	N/A	Gross margin 15e	37%	Stock days 15e	N/A	Stock overhang	◖
Sales 12-16e	76.2%	Operating margin 15e	N/A	Debtor days 15e	112	Interest rates	○
Sales 14-16e	65.0%	Gr mgn / Op mgn 15e	N/A	Creditor days 15e	152	Oil/commodity prices	○

Management team

Chairman: Derek Handley

A well-known New Zealand tech entrepreneur, Derek founded The Hyperfactory with his brother, selling out to Meredith Corporation nine years later. He is on the boards of several technology start-ups, as well as The B Team, promoting socially responsible business and a major multinational microfinance organisation.

CEO: Mark Ryan

Mark has extensive business management experience across IT, digital services, ad agencies and new media in international, Asia-Pacific and Australian businesses. He was the first COO for Ogilvy Australia, then Australia's largest agency, having previously been responsible for restructuring Euro RSCG Aus.

General manager: Andrew Jacobs

Andrew is a co-founder of Snakk Media and a leading figure in mobile media in Australia, having joined The Hyperfactory in 2008. He is a regular speaker and panellist at new screen conferences across the Asia-Pacific region.

CFO: Bob Mohan

Bob joined Snakk in September from Google, where he had most recently been leading the company's' Asia Pacifica accounting team. Prior to that he had been in corporate finance in both Google and other US fast-growing internet-based companies.

Principal shareholders	(%)
Far East Associated Traders Ltd (Owned by Derek Handley)	15.4
New Zealand Central Securities Depository Ltd	6.4
HPF Investments Ltd	5.4
JB Were (NZ) Nominees Ltd	3.8

Companies named in this report

Millennial Media (NYSE:MM), Velti (OTCMKTS:VELTF), Mobile Embrace (ASX:MBA)