

## Snakk Media

### FY17 results and revised KOMs

Snakk Media (SNK) has published its FY17 results and reset its FY18 key operating milestones (KOMs). While revenues were a shade ahead of the prior year, the operating loss widened considerably from NZ\$1.0m to NZ\$3.3m, reflecting the investment made in repositioning the business. With a broader range of revenue streams and a reduced cost base kicking in more strongly from Q218, financial performance may start to improve. In early May, the Manji Family Trust subscribed at a premium to additional shares to help fund working capital and now holds 17.2% of the equity.

### H217 reduced loss

As outlined in the Q417 trading update, FY17 revenues were NZ\$10.6m against NZ\$10.5m in FY16. The net loss of NZ\$3.3m was split NZ\$1.9m in H117, narrowing to NZ\$1.4m in H217. Employee costs and benefits were 51% higher in FY17 than the prior year, but the restructuring in Q417 addressed overhead in non-customer facing support functions, as well as focusing on improving operational controls and efficiencies. Part of building greater resilience in the business is widening the range of products and services on offer. Growth in the programmatic self-service campaign offering on the UberMedia platform drove this stream to account for 15% of Q417 revenue, with good momentum into FY18. Although achieving lower gross margins, operating margins in self-service are attractive and there is obviously good scalability. It also broadens the potential pool of clients. The group's new KOM for gross margin is reduced from 62% to 58% to reflect this change in the mix. Mobile advertising overall remains a highly competitive market.

### Cash boosted

Snakk finished its financial year with a cash position of NZ\$0.6m, down from \$3.0m at end FY16, post an operating cash outflow of NZ\$2.4m (FY16: outflow NZ\$1.7m). Trading and timing issues lead to a low level of working capital at the balance sheet date. With y-o-y revenue growth reportedly positive in April and May, Snakk's ability to find the required upturn in working capital will have been helped by the Manji subscription post the year-end. This raised NZ\$110k (at NZ\$0.20, a substantial premium to the then price of NZ\$0.09). Its stake now stands at 17.2% of the equity.

### Valuation: Off the bottom

Snakk's share price dropped sharply after the earlier KOM updates, from NZ\$0.27 down to NZ\$0.09 before recovering to current levels. Given the scale of the group, comparisons to global peers are of limited use, but for context these are currently trading at median multiples of 1.8x EV/sales; 5.1x EV/gross profit.

#### 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)	0.5	0.2
03/15	9.2	3.9	(4.0)	(25.6)	0.3	0.1
03/16	10.5	6.6	(0.9)	(6.6)	0.2	0.1
03/17	10.6	6.3	(3.2)	(20.6)	0.2	0.1

Source: Company accounts

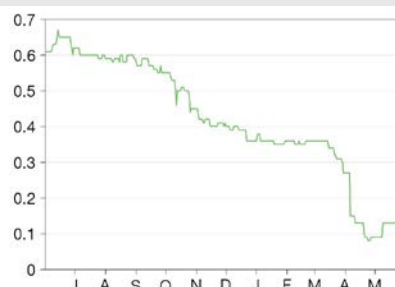
#### Media

2 June 2017

**Price** NZ\$0.12  
**Market cap** NZ\$2m

Net cash (NZ\$m) at 31 March 2017 0.6

#### 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.
- Support of Manji Family Trust.

#### Bear

- Heavy price competition.
- Structural reduction in gross margin.
- Investment costs.

#### Analysts

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Snakk Media coverage is provided through the NXT Research Scheme

## FY18 KOMs set

Snakk has now published KOMs for FY18. The table below shows these in context.

**Exhibit 1: Key operating milestones FY17 & FY18**

	FY17 actual (%)	2017 target (%)	New FY18 target (%)
Click-through rate	0.97	1.00	0.97
Gross margin	60	62	58
Compensation ratio	51	42	42
Staff turnover	33	24	33

Source: Snakk Media

In Q417, the KOMs of compensation to advertising revenue and for gross margin were both undershot. With the restructuring that was carried out in that period and the early signs of a return to a positive growth position in the first weeks of the new financial year, Snakk has chosen to stick with its prior year KOM of 42% for its compensation ratio for FY18.

As explained above, the structural and market changes underlying the reduced gross margin have meant that it is sensible to have revised this KOM downwards for the current year.

The achieved click-through rate for FY17 at 0.97% was slightly below the 1.00% target for the year, and the new target reflects this outturn. This remains very well above the (mobile advertising) industry rate of around 0.62%.

As with the click-through rate, Snakk has set its FY18 target for staff turnover as the achieved rate in the prior year. Staff turnover in the mobile advertising sector – and much of the tech space – is inherently high and the 33% level for Snakk is not of itself a factor for particular concern. Given the relatively small number of full time staff, one or two more or fewer make a mathematically meaningful impact on the ratio.

## Peer comparison

Snakk's share price dropped sharply post the KOM updates in early April, falling from NZ\$0.27 to NZ\$0.09 initially, before staging a modest rally to the current level. Using the year-end cash balance, the group has a low (but now positive) EV, 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 2: Listed peer comparison**

Company	Code	Currency	Market cap (m)	EV (m)	EV/sales (x)	EV/gross profit (x)	Gross margin (%)	EV/EBITDA (x)
Taptica	TAP: LSE	GBP	185	215	1.7	8.9	36.5	8.7
Criteo	CRTD:NASDAQ	US\$	3,558	3,353	1.9	5.2	35.8	-
SITO Mobile	SITO: NASDAQ	US\$	84	83	2.8	5.1	54.8	-
RNTS	RNM:FRA	€	199	300	3.7	12.3	30.0	-
Matomy	MTMY: LON	GBP	100	95	0.5	2.3	20.6	8.4
RhythmOne	RTHM:LON	GBP	208	191	1.3	3.8	33.9	-
<b>Median</b>					<b>1.8</b>	<b>5.1</b>	<b>34.9</b>	<b>8.6</b>
<b>Snakk Media</b>		<b>NZ\$</b>	<b>1.9</b>	<b>1.3</b>	<b>0.1</b>	<b>0.2</b>	<b>59.7</b>	<b>-</b>

Source: Bloomberg. Note: Prices as at 31 May 2017. Sales and net debt are last reported.

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