Snakk Media

Media

5 November 2018

Broadening out the offering

The benefits of the restructuring initiated in FY17 and continuing through FY18, should be more apparent in FY19 as the business runs for a full year on a lower underlying cost base. The upheaval in mobile advertising markets presents opportunities as well as threats and Snakk is diversifying its offering beyond geolocation in-app advertising to include a broader range of digital and data products. The group is placing shares at NZ$0.0425, raising $144k to ease its tight working capital position.

Strengthened team

Changes to the operational management team have been made to bring in a new chief commercial officer, whose priorities include expanding the product range within digital media, as well as growing the customer base beyond the core advertising agency clients. The strengthened team is focused on driving product development and ad operations, on tightened financial disciplines, as well as on growing the top line. There remain challenges within the market environment and revenues in H119 for managed services have been below earlier management expectations.

Cash injection

At the end of March 2018, Snakk had a cash position of NZ$1.1m, but the funding of working capital has placed significant restraints on the operation of the business over recent months. Management has been reviewing its capital strategy and at the AGM indicated its intention to raise funds through placing up to 20% of the issued share capital, with two directors participating. Just less than 8% of the issued share capital is being issued for $55k to Yee Industries (with Mr M. Yee to join the board), with the two directors providing $55k and $34k respectively, initially via convertible loans until shareholder approval is obtained.

Valuation: Below last published cash

Having reached NZ$0.10 in June 2018, Snakk's share price has fallen away to the current lows over the summer and autumn. The group had NZ$1.1m of cash at end March, but this figure is outdated so, at this stage, it is not possible to determine the group's EV. Given the scale of the group, comparisons to global peers are of limited use but, for context, these currently trade at median multiples of 0.5x EV/sales and 4.3x EV/EBITDA, having fallen sharply in value over the same period.

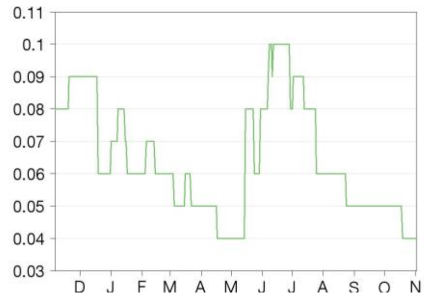
Historical financials

Year end	Revenue (NZ$m)	Gross profit (NZ$m)	PBT (NZ$m)	EPS (c)	EV/gross profit (x)	EV/Sales (x)
03/15	9.2	3.9	(4.0)	(25.6)	N/A	N/A
03/16	10.5	6.6	(0.9)	(6.6)	N/A	N/A
03/17	10.6	6.3	(3.2)	(20.2)	N/A	N/A
03/18	10.3	6.0	(0.3)	(1.6)	N/A	N/A

Source: Company accounts

Price	NZ$0.035
Market cap	NZ$0.6m

Share price graph



Share details

Code	SNK
Listing	NXT
Shares in issue	16.3m
Cash (NZ$m) at 31 March 2018	1.1

Business description

Mobile advertising technology company Snakk Media specialises in engaging consumers. It works to identify and target mobile audiences, whether directly by advertising to mobile devices or indirectly using the mobile consumer data through other channels.

Bull

- Broadening range of products and services.
- Strengthened board.
- Cash injection.

Bear

- Slower growth of than anticipated.
- Highly competitive sector.
- Comparatively small scale.

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739
Neil Shah +44 (0)20 3077 5700

media@edisongroup.com
Edison profile page

Snakk Media coverage is provided through the NXT Research Scheme

EDISON

FY19 performance against KOMs

Snakk has now published its performance against target key operating milestones (KOMs) to date for FY19e. The table below shows these in progression.

Exhibit 1: Performance against KOMs

	Q119 (%)	Q219 (%)	H119 (%)	FY19 target (%)
Gross margin	58	57	57	58
Compensation to revenue ratio	47	61	52	34
Impressions delivered to impressions booked	105	102	104	101
% of campaigns delivered to target	98	98	98	98, +/-5

Source: Snakk Media

The third and fourth KOM's are new this financial year and are more appropriate for assessing the group's performance. Staff turnover and the click-through rate were dropped, the former as it was inherently volatile given the small base and the latter because the measures that have replaced it are more useful metrics.

The only one of these reported numbers noticeably adrift from target is that for compensation to revenue. This is down to several factors; firstly that revenues from managed services were below those anticipated; secondly that the working capital constraints have been in part behind the delays in bringing new products and services to market; and, thirdly, the compensation bill was swelled by payment of compensation for loss of office to the previous head of sales. Management anticipates that the full-year figure will be 38.2% (provided revenues for the remainder of the year are as now expected), implying a substantial fall in this ratio in H219.

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. It then continued to drift, hitting lows of NZ$0.04 in April and May 2018, bouncing to NZ$0.10 in June, then falling away again as the need for cash became more apparent. The year-end cash balance was NZ$1.08m, but, given the time since elapsed, it is not practical to use it to determine the EV. With an FY18 loss per share, the P/E is also not meaningful, rendering peer comparison based on multiples impossible. For context, the quoted companies in the space are trading at the multiples shown below. In June 2018, they were trading at 1.1x EV/sales and 8.6x EV/EBITDA, twice the current levels.

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	3.0	192	194	0.9	36.5	6.2	5.9
Criteo	US$	21.3	1,380	924	0.4	35.7	3.4	13.0
SITO Mobile	US$	1.3	31.3	25	0.6	48.3	N/A	N/A
Matomy Media	GBP	20.4	20	52	0.4	21.9	5.2	N/A
Fyber	€	0.2	27	213	1.2	27.3	N/A	N/A
RhythmOne	GBP	1.7	136	143	0.2	42.8	1.5	3.6
Median					**0.5**	**36.1**	**4.3**	**5.9**
Snakk Media	**NZ$**	**0.03**	**0.6**	**N/A**	**N/A**	**58.3**	**N/A**	**N/A**

Source: Thomson Reuters. Note: Prices as at 31 October 2018. Sales and net debt are last reported.

EDISON

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

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 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia