

Snakk Media

Self-service growth kicking in

Snakk Media has issued its Q2 trading update and performance against KOMs. These show signs that it may be turning a corner following restructuring carried out over the past year and the push into self-service. H118 revenue was up 13%, while operating expenses were down 22%. Full interim figures to end-September are scheduled for the end of November. In May 2017, the Manji Family Trust subscribed at a premium to additional shares to help fund working capital, now holding 17.2% of the equity. A strategic review of capital options has yet to be completed.

Emphasis on cost control

The gross margin KOM, which had been revised down earlier in the year to 58% to reflect the change in mix, came in slightly ahead of target at 59%. The increased focus on scalable elements of the business, such as the programmatic self-service offering, means a different skill mix is needed to support those activities. This has been achieved through restructuring and natural attrition, and has resulted in a decrease in the compensation to advertising revenue ratio. With top-line growth, this has fallen from 44% in Q118 to 37% in Q218. The staff turnover KOM at 11% for Q2 shows the group remaining on track to meet its full-year target of 33%, but should be noted in the context of a group with 41 employees as at end-March. Click-through rates of 0.98% remain on target. Other strategic priorities for FY18 include growing the managed service business beyond the highly competitive NSW market and carefully managing the South-East Asia operation. The tech platform relationship with UberMedia, for which Snakk is the exclusive partner in Asia Pacific, has been reinforced through the development of additional capabilities.

Capital strategy remains under review

At the end of March 2017, Snakk had a net cash position of NZ\$0.6m, down from \$3.0m at end-FY16, following an operating cash outflow of NZ\$2.4m (FY16: outflow NZ\$1.7m). The subscription by the Manji Family Trust raised NZ\$110k post year-end. The outcome of the appraisal of capital strategy options, announced with the full-year results, has not yet been published.

Valuation: Drifting ahead of capital review

Snakk's share price drifted around current levels since the review of KOMs at the beginning of April. There is unlikely to be any significant change until there is clarification of the group's capital strategy, currently under review. 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 1.1x EV/sales; 4.4x 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)	0.2	0.1
03/15	9.2	3.9	(4.0)	(25.6)	0.2	0.1
03/16	10.5	6.6	(0.9)	(6.6)	0.1	0.1
03/17	10.6	6.3	(3.2)	(20.6)	0.1	0.1

Source: Company accounts

Media

1 November 2017

Price **NZ\$0.08**

Market cap **NZ\$1.3m**

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.
- Capital strategy under review.

Analysts

Fiona Orford-Williams	+44 (0)20 3077 5739
Bridie Barrett	+44 (0)20 3077 5757

media@edisongroup.com

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FY18 to date on track to meet KOMs

Snakk has now published its performance against target key operating milestones (KOMs) for Q218. The table below shows these in context.

Exhibit 1: Performance against KOMs

	Q118 (%)	Q218 (%)	H118 actual (%)	FY18 target (%)	Q218 target variance (%)
Gross margin	57	59	58	58	+1.3
Compensation ratio	44	37	41	42	+11.6
Staff turnover	12	11	23	33	-2.6
Click-through rate	0.97	0.98	0.97	0.97	+0.01

Source: Snakk Media

The gross margin is notably higher than that achieved across much of the ad tech sector (see Exhibit 2 below), which is primarily a function of its mobile focus and sophisticated data-led approach, steering it clearer of the most commoditised areas of the market. The target level was revised down earlier in the year with the push for growth on programmatic self-service on the UberMedia platform – business that achieves lower gross margins but higher operating margins.

As explained above, the fall in the compensation to advertising revenue KOM reflects both the effect of the restructuring (which will have come through more strongly from June) plus natural attrition and the top-line progress. 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.

The click-through rate is ahead of the industry average (quoted at 0.62%), which reflects its sophisticated targeting and geolocation capabilities.

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. Since then, it has remained in a fairly narrow range. Using the year-end cash balance, the group has a low (but 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	272	325.3	2.3	7.1	36.5	13.1
Criteo	CRTD: NASDAQ	US\$	2,705	2,419.6	1.2	3.8	35.8	-
SITO Mobile	SITO: NASDAQ	US\$	174	174.9	5.7	10.8	54.8	-
Matomy Media	RNM: FRA	GBP	86	115.9	0.5	2.8	20.6	10.3
RhythmOne	MTMY: LON	GBP	138	106.8	0.7	2.1	33.9	(21.2)
Fyber	RTHM: LON	€	112	234.7	1.0	4.9	27.3	(27.4)
Median					1.1	4.4	34.9	N/A
Snakk Media		NZ\$	1.0	0.7	0.1	0.1	59.7	-

Source: Bloomberg. Note: Prices as at 30 October 2017. Sales and net debt are last reported.

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