EDISON

NXT Company Spotlight

Snakk Media

Media

5 February 2018

Improved cash performance

Snakk Media has issued its Q3 KOMs, which are broadly consistent with its full-year targets, with an outperformance of the compensation to revenue ratio and a higher staff turnover than indicated. This figure, though, is highly volatile due to the small numbers involved. The company is still undergoing a review of its capital strategy and the share price is unlikely to recover until the outcome of this is published.

Self-service underpinning revenue growth

The gross margin KOM at 56% slightly undershot its target, but this reflects the higher inventory cost over the peak advertising season before Christmas. The ytd number is only a shade under the annual target of 58%, well ahead of the industry average (Edison: 35%) and underpinned by its mobile data-driven targeting technology, based on the UberMedia platform. There were some timing issues benefiting the compensation revenue ratio and the staff turnover figure was inflated by a staff member leaving and later rejoining. The self-service offer, launched in October 2016, is growing well in Australia and New Zealand. This offers a programmatic geomobile platform for customers who prefer to manage their own advertising campaigns on UberMedia via Snakk. The growth of this in the mix will depress the group's gross margin, but should drive up the operating margin.

Operating cash outflow greatly reduced

At the end of September 2017, Snakk had a net cash position of NZ$0.5m, down from NZ$0.6m at the year-end and from $1.6m at end-H117. The operating cash outflow in the first half was greatly reduced at NZ$0.2m (from NZ$1.4m in H117), with a higher level of receipts from customers (+11%) and a cost base reduced by 9%. The subscription by the Manji Family Trust raised NZ$108k post year-end, in H118. The outcome of the appraisal of capital strategy options, announced with the full-year results, is still to be published.

Valuation: Awaiting clarification

Snakk's share price has continued to drift down over the last quarter from 10c to the current level, having initially been strongly marked down post the review of KOMs at the beginning of April 2017. We suggest that the catalyst for a significant change will be the clarification of the group's capital strategy, still under review. Given the scale of the group, comparisons to global peers are of limited use but, for context, these currently trade at median multiples of 1.1x EV/sales and 8.6x EV/EBITDA.

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)	0.16	0.07
03/15	9.2	3.9	(4.0)	(25.6)	0.12	0.05
03/16	10.5	6.6	(0.9)	(6.6)	0.07	0.04
03/17	10.6	6.3	(3.2)	(20.6)	0.07	0.04

Source: Company accounts

Price	**NZ$0.06**
Market cap	**NZ$1.0m**
Net cash (NZ$m) at 30 September 2017	0.5

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.
- Strengthened cash performance.

Bear

- Capital strategy under review.
- Heavy price competition.
- Comparatively small scale.

Analysts

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Snakk Media coverage is provided through the NXT Research Scheme

FY18 to date remains on track to meet KOMs

Snakk has now published its performance against target key operating milestones (KOMs) for Q318. The table below shows these in context.

Exhibit 1: Performance against KOMs

	Q118 (%)	Q218 (%)	Q318 (%)	Ytd 2018 (%)	FY18 target (%)	Q318 ytd target variance (%)
Gross margin	57	59	56	57	58	-1
Compensation ratio	44	37	29	36	42	+13
Staff turnover	12	11	34	51	33	-54
Click-through rate	0.97	0.98	0.98	0.98	0.97	1

Source: Snakk Media

The gross margin is notably higher than that achieved across much of the ad tech sector (see Exhibit 3 below), which is primarily a function of its mobile focus and sophisticated data-led approach, steering clear 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 (the group's technology partner) platform – business that achieves lower gross margins but higher operating margins.

The positive fall in the compensation to advertising revenue KOM reflects the continued impact of the restructuring and the timing of natural attrition and new hires, all against growing revenues. Staff turnover in the mobile advertising sector – and much of the tech space – is inherently high. The commentary indicates that the full year figure will be over 50% (ahead of the official 33% target), but this is not an inherent concern. Given the relatively small number of full-time staff, one or two more or fewer make a mathematically meaningful impact on the ratio. One member of staff left in Q3 but returned in Q4, inflating the recorded number.

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

The KOMs and targets will be revisited at the year-end, as is standard procedure.

Interim results showed progress

Exhibit 2: Half-year revenues by geography

	H117	H217	FY17	H118	Growth
Australia	3,551,681	4,432,631	7,984,312	4,423,328	25%
NZ	618,821	817,803	1,436,624	732,519	18%
Singapore	535,593	669,386	1,204,979	174,830	-67%
Total revenue	**4,706,095**	**5,919,820**	**10,625,915**	**5,330,677**	**13%**

Source: Company accounts

The half-year numbers showed encouraging revenue progress in the core markets of Australia and New Zealand, while revenues in Singapore fell as the group concentrated its efforts on growing the self-service revenues. These have grown well, accounting for NZ$937k of H118 revenues (18% of the group total), from a standing start in October 2016. Managed service revenues were broadly flat in the home markets of Australia and New Zealand, but fell away in Singapore.

The pre-tax loss for H118 was NZ$0.6m (against H117 at NZ$1.9m), reflecting the substantial reduction in overheads by c NZ$1.2m (24.5%) from Q118, the full benefits of which started to be realized from June 2017. As stated above, the operating cash outflow was greatly reduced and the balance sheet stabilised by the cash subscription by the Manji Family Trust.

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 continued to drift. Using the half-year cash balance of NZ$0.5m, the group has a low (but positive) EV, but 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 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	6.3	302	396	3.1	36.5	15.9	24.4
Criteo	US$	25.0	1,650	1,319	0.7	35.8	7.4	20.0
SITO Mobile	US$	6.0	133	130	4.4	54.8	N/A	N/A
Matomy Media	GBP	0.7	67	96	0.5	20.6	8.6	N/A
Fyber	€	0.8	88	213	1.2	27.3	N/A	N/A
RhythmOne	GBP	3.4	123	135	0.9	33.9	N/A	N/A
Median					**1.1**	**34.9**	**8.6**	**22.2**
Snakk Media	**NZ$**	**0.1**	**1**	**0.5**	**0.1**	**59.7**	**N/A**	**N/A**

Source: Bloomberg. Note: Prices as at 31 January 2018. Sales and net debt are last reported.

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