EDISON

VMob Group

Right here, right now

Initiation of coverage

Software & comp services

VMob (VML) is an early-stage New Zealand-based company commercialising a unique cloud-based mobile marketing solution for global retailers. It uses big data analytics to deliver targeted rewards to mobile handsets to drive more customers into bricks and mortar stores to increase sales and build loyalty. VML has a close partnership with Microsoft and its flagship customer is McDonald's (Japan, the Netherlands, Sweden). We forecast losses for two to three years but successful expansion with major retailers should create a platform for sales and earnings to build rapidly.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/14	0.5	(1.6)	(0.2)	0.0	N/A	N/A
03/15e	2.2	(4.4)	(0.3)	0.0	N/A	N/A
03/16e	7.7	(2.3)	(0.2)	0.0	N/A	N/A
03/17e	12.5	0.5	0.0	0.0	N/A	N/A

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

Endorsement from Microsoft and McDonald's

VML's product is aligned with Microsoft's 'mobile first, cloud first' strategy and is ranked in the top 10% of data users on Microsoft's Azure platform. It is leveraged to the expected take-up of smartphones and the switch from traditional media to digital marketing using mobile devices. The VMob product has received endorsement from the number one global fast food provider, McDonald's, winning a competitive tender for McDonald's Japan with 3,200 stores/40 million app users.

Lengthy sales cycle

The plus for the VMob product is that it uses all available data, all available technology (such as beacons) and all available marketing tools and measures the marketing campaign's return on investment (ROI). The downside is complexity and the necessity for enterprise-wide decisions, which means a lengthy sales cycle. Major contracts can take up to a year to win but the new 'Out Of the Box' (OOB) product, designed for mid-sized retailers, should help to shorten the sales cycle.

Valuation: Exposure to volume creates upside

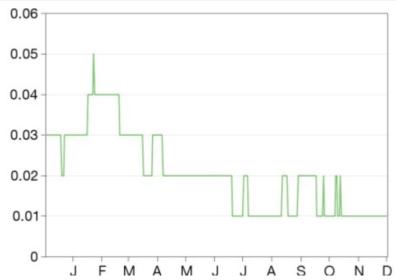
The current share price factors in 35 customers at an average annual revenue (ARR) of NZ$0.3m by 2017. Valuation uplift will be triggered by contract wins and increases in ACMR, which stands at NZ$2.1m following the McDonald's Japan contract win. Because the product is early stage and there are few relevant or profitable comparable companies, we have used a DCF valuation to determine how many customers the market is paying for today. To dimension the opportunity we have included an upside case as well as our base case forecasts. Our base case assumes 43 customers by 2017 and results in a DCF valuation of NZ$0.038. The upside case assumes 51 customers and values the company at NZ$65.5m (NZ$0.052).

3 December 2014

Price	**NZ$0.01**
Market cap	**NZ$14m**

Net cash (NZ$m) 30 September 2014	2.9
Shares in issue	1,263.3m
Free float	65%
Code	VML
Primary exchange	NZ Alternative Market
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(21.4)	(38.9)	(63.3)
Rel (local)	(21.2)	(40.0)	(66.2)
52-week high/low	NZ$0.05	NZ$0.01	

Business description

VMob Group is one of a new breed of mobile marketing enablers. Its software as a service (SaaS) product is designed to help global retailers drive more foot traffic through bricks and mortar stores. The top 250 global retailers still transact >90% of their business through bricks and mortar stores.

Next event

Full-year results	July 2015

Analysts

Moira Daw +61 (0)2 9258 1161

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

tech@edisongroup.com

Edison profile page

VMob Group is a research client of Edison Investment Research Limited

Investment summary

A game-changing product for fast-moving mobile marketplace

VML was formed in 2007 by Scott Bradley, the current CEO. It listed on the NZ Alternative Market in August 2012. Scott has a background in marketing for major consumer brands and this marketing focus has led to the development of a product that uses the mobile phone to deliver to retail customers an offer/message/information that has the best chance of triggering a purchase. The individually tailored communication uses all available information, employs Microsoft's machine learning tools to determine what the customer is likely to want *right now*, provides the customer with a reward/discount designed to trigger a purchase and measures ROI by integrating with the customers' systems. VML is at the forefront of a game-changing revolution where old technologies, such as GPS and mobiles, are being combined to influence customer purchasing behaviour 'right here right now'. VML has exposure to two mega trends: 1) the explosion in smart phone use; and 2) the growth in mobile engagement with retailers.

Valuation: Exposure to fast-growing mobile use

Given that VML intends to continue to invest in building market share and expects to be loss making for the next two to three years, a DCF valuation approach is the most appropriate. Our base forecasts assume a CAGR in revenue of 42% to 2020, a WACC of 11.8% and a terminal growth rate of 2%, resulting in an estimated valuation of NZ$0.038 per share. Our comparative company analysis includes companies operating in the mobile engagement market and companies selling products using cloud-enabled products that exploit big data. Most of the mobile enabler category of comparable companies are early stage and therefore still loss making.

Financials: Trade-off between profitability and market building

VML completed a NZ$8m capital raise in December 2013 to fund expansion into European and North American markets and to continue product development. Further capital raises may be necessary depending on the time taken to conclude new contracts. ACMR including the recently signed contract with McDonald's Japan will be NZ$2.1m by the end for FY15.

Sensitivities: Complexity, timing and size

VML is in the top 10% globally of Microsoft's data users and this relationship with Microsoft is crucial to the company's success. VML was the runner up in the 'Microsoft 2014 Winning with Azure' contest, a global skills-based contest to determine the best product application or implementation of Azure that created business value.

The potential market for VML's product is measured in billions of dollars; however, the challenge for VML as a small New Zealand-based company is to gain credibility on the world stage. Its initial customer McDonald's (Netherlands, Sweden and Japan) is high profile as is Esso Norway where VML is operating a pilot program. The contract with Loyalty NZ and the prospects pipeline should see the company continue to broaden its industry coverage.

The VMob product is a complete end-to-end solution beginning with customer targeting algorithms using big data and finishing with integration into the retail customer's back office systems. The 'whole of life' solution tends to be a complex sale, which by necessity is made at the enterprise level. This means a lengthy sales cycle. The complexity of the product could well mean that customers may find it easier to take tiny bites, such as installing beacons, rather than purchasing a complete solution. It is possible that a less than complete solution could be perceived to be more cost effective than a closed loop solution such as the VMob product.

Company description: Creating valuable customers

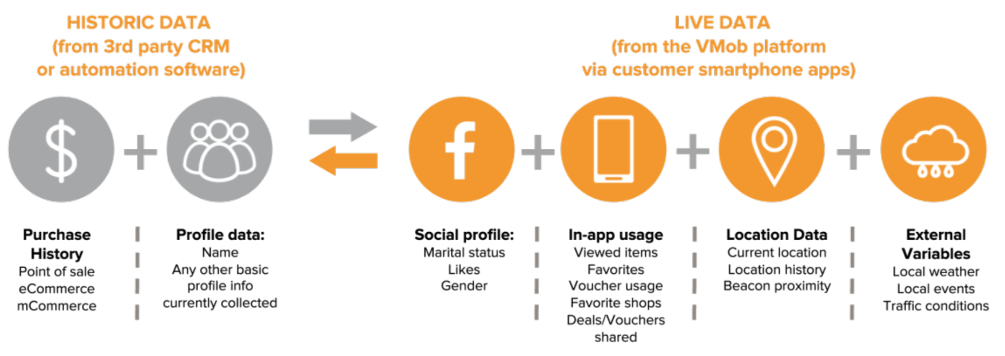
VML is headquartered in Auckland, New Zealand and has sales offices in the US, UK, Japan and Australia. Its strategy is to sell its software as a service (SaaS) cloud-based product into the global retail market by leveraging its relationship with Microsoft and using McDonald's (Netherlands, Sweden and Japan) as reference sites. During the current financial year employee numbers have doubled to 43 as VML augments its salesforce and adds senior managerial positions in marketing, engineering and technology as it gears up for growth. The CEO recently moved to New York to establish the office and be close to Microsoft and potential major customers with whom negotiations are ongoing.

The objective of the product is to drive more foot traffic through bricks and mortar stores and to increase the retailers' profits. In the US it is estimated that foot traffic in retail stores has declined by ~50% since 2010, leaving retailers with the dilemma of operating with declining sales in a high fixed-cost business model. Retailers have resorted to store-wide/product-wide discounting and cutting service levels in an attempt to maintain margins. The advent of cloud computing, the spread of mobile devices and the availability of data has opened the door for products that provide retailers with a solution to real-time, one-to-one communications with customers. The VMob product allows retailers to target the individual customer 'right here, right now' with a message or an incentive that is likely to result in a purchase. The VMob SaaS product uses mobile technology to deliver individually tailored messages and rewards/offers to new and existing customers who have downloaded the retail store's app. This provides retailers with the best opportunity to influence a purchase decision without the need to give away margin caused by blanket discounting and it opens the door to potential upselling to loyal customers. Sending a message to a potential customer can be triggered by location using global positioning systems (GPS) and/or in-store beacons, by external factors such as weather or events, from information obtained from social media and from the retailer's internal systems or a combination of some or all of these factors. The unique feature of the VMob product is that it quantifies the impact of the reward/offers campaign by integrating with the clients' POS and enterprise resource planning (ERP) systems. This means that the client can quantify the effectiveness of the offer by calculating ROI.

These messages and rewards/offers are designed to provide the customers with an enhanced 'in store' experience and to encourage customers to:

- remain loyal and increase the number of visits made to the retailers' stores; and
- increase the amount spent while in store.

Exhibit 1: VMob live marketing



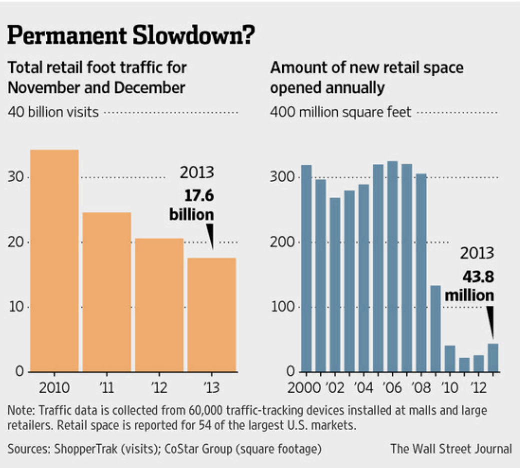
Source: Company data

VMob has built real-time predictive models using Microsoft's machine learning tools. These models help VMob to predict the take-up of a particular offer based on discount level, customer/social profile type targeted, time of day, weather conditions as well as previous purchasing history (ie traditional basket analysis).

The retailer's problem

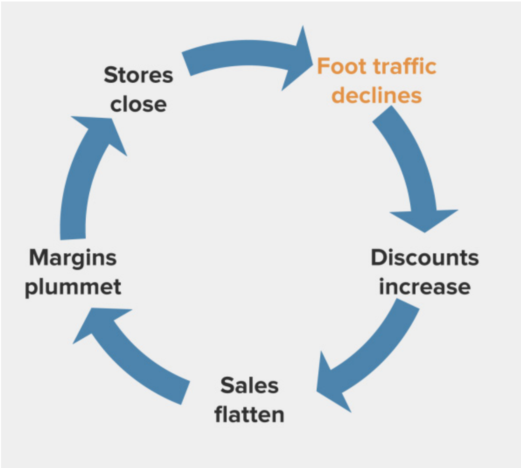
During the global financial crisis (GFC) of 2008 there was a crisis of confidence that saw retail sales fall by 10% in the US, ~15 % in EU-27 and ~5% in Australasia. AC Nielsen reported in May 2008 that consumer confidence fell in 39 out of 48 countries. At around the same time customers were voting with their feet and choosing online shopping over in-store shopping. Less foot traffic led to lower sales and lower margins because retailers used discounting to lure customers back into their stores. This led to narrower margins and slim profits, which forced retailers to close stores and reduce their overall footprint to cut costs.

Exhibit 2: US retail



Source: Shopper talk (visits) CoStar group (square footage)

Exhibit 3: The retailers' problem



Source: Company data

Retailers are in urgent need of a solution and are looking to new technologies that target individual customers with incentives and information. These incentives are designed to encourage customers to visit the store, to make a purchase, to reward the customer for loyalty, to make return visits and to buy more.

The VMob product uses mobile technology, big data, analytics and the power of cloud computing to provide a cost-effective solution that not only increases retail spend and builds loyalty, but measures ROI by linking the incentive programme cost with POS and back office systems.

An example

VMob has developed algorithms that analyse data points and come up with what a customer is most likely to want to purchase *right now* so that this can be matched with the retailer's incentive packages. A hypothetical example shows how the VMob product works:

- A potential customer downloads the Super Retail App on their mobile phone.
- This action creates a unique device ID, which allows the behaviour of the user of the device to be mapped.
- The potential customer searches the app for information on tents; he even looks at a video on how to erect the tent.
- VMob examines the customer's online social media profile and learns that he is married with a family and is interested in outdoor activities.
- VMob checks the events calendar to find that school holidays begin next week.

- VMob checks the weather forecast for next week's outlook.
- VMob sends an offer to the customer's mobile (using push messaging) for 10% off the price of a top-of-the-range family-sized tent and includes a special offer of four free life jackets.

Business model

Commercialisation of VMob's product should be considered 'early stage' in a space where technology developments and applications continue to move at break-neck speed. VML's first major contract win was with McDonald's in the Netherlands (live in August 2013). Since then McDonald's Sweden (live in January 2014) and McDonald's Japan (signed in July 2014) have entered into contracts with VML. The success of the McDonald's installations continues to fuel interest from the McDonald's network. In the Netherlands the app has been installed by over 10% of the population, visits have increased and average spend of app users is up 47%. VML's contract has been extended and upsold. We expect that McDonald's operations in other jurisdictions will purchase the VML product in the near term.

The timeline below shows key contract wins.

Exhibit 4:VMob – timeline

Source: Company data

VML offers two key products – a tailor-made enterprise-wide product and a newly developed off-the-shelf product, out of the box (OOB). Revenue is generated from the following sources:

- Upfront fees and consulting fees related to product design and adaptation
- Minimum monthly transaction revenue based on an expected activity level
- Transaction based fees above the expected level of activity
- Fees for consultancy services

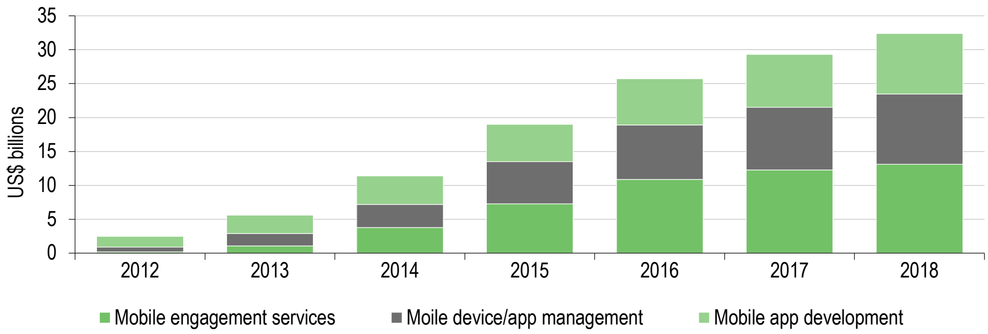
The upfront fees and consulting fees are priced to allow for a professional services margin (up to 40%). The amount of the minimum monthly transaction revenue based fee is fixed as part of the sales negotiation and provides downside protection. As the product becomes more widely understood and as more reference sites come on stream, we expect the minimum transaction revenue fees to reduce and more fees to be generated from transaction activity, giving VML more potential upside.

Unlike other SaaS products that are sold by way of a monthly subscription, VML's customers sign contracts for a minimum of a 12-month period. The recent contract with McDonald's Japan was signed for three years. Management estimates that ACMR from signed contracts at end of FY15 will be NZ$2.1m. Contract renewals are expected to remain high because the product is embedded in the client's management information systems.

Market size

VML operates in the mobile transactional advertising market, which is a sub-set of the mobile advertising market. In an August 2013 report, 'Wanted: Mobile Engagement Providers', published by Forrester, the conclusion reached was that special skills would be needed to deliver mobile engagement programmes and that product providers, such as VML, have an opportunity now to form long-term partnerships with retailers. Forrester divided the market into those who provide mobile coupons, those who provide mobile advertising for brands and the subset in which VML operates – mobile transactional advertising. Forrester did not attempt to split the mobile engagement market into categories, but estimated that the total market for mobile advertising excluding coupons would grow to US$32.4bn by 2018.

Exhibit 5: Global mobile advertising market



Source: Forrester: "Wanted: Mobile Customer Engagement Providers", August 2013

Comments from 'Wanted: Mobile Engagement Providers' that are relevant to the VMob product and its marketplace include:

- For the next 10 years building and developing great mobile experiences "will be the beating heart of customer engagement".
- Intuitive apps will be the front of a complex system of engagement that is designed to help customers "take action in their immediate context and moments of need", because customers now expect anything, anywhere, anytime.
- New age apps could cost 10 times the cost of the current app.

Target retailers for the VMob product are those with impulse purchase items that are relatively commoditised. Department stores, fashion retail, hospitality, casinos, food & beverage, amusement parks, hardware, pharmacies, supermarkets and service stations all fit these criteria. As another way of dimensioning market size, we have looked at the top 250 global retailers and we estimate the mobile advertising spend (including the cost of coupons) as ~US$24bn (using 2012 data as a base.)

Exhibit 6: Top 250 global retailers 2012 revenues

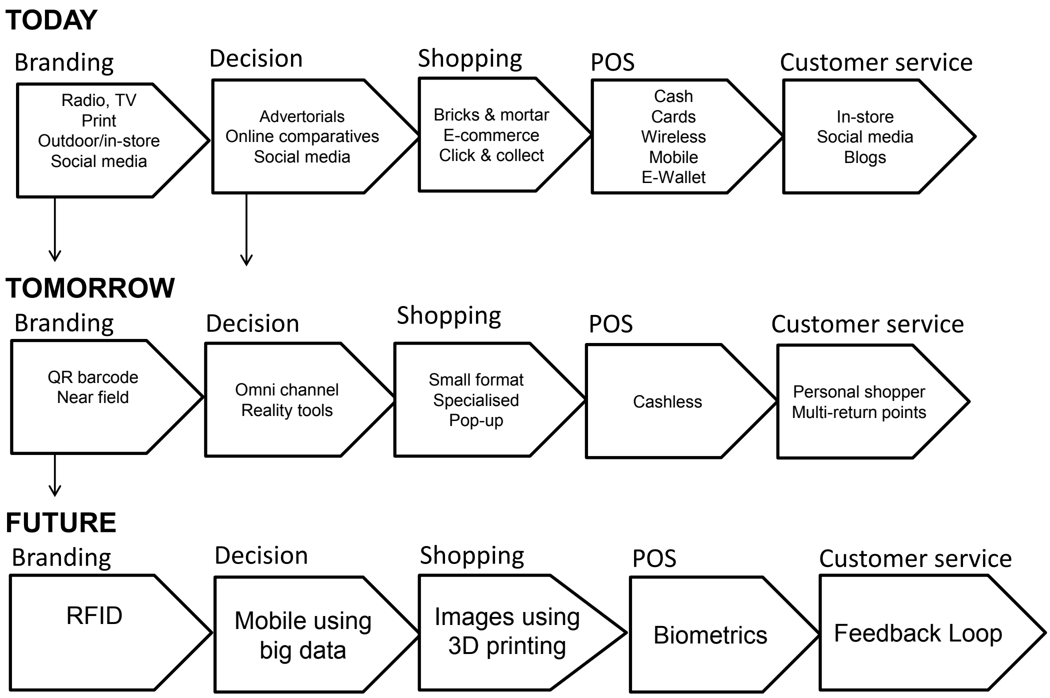
Retailer	Country	US$bn	% total
Wal-Mart	US	469	10.0%
Tesco	UK	101	2.1%
Costco	US	99	2.1%
Carrefour	France	99	2.1%
The Kroger Co	US	97	2.1%
Schwartz	Germany	87	1.9%
Metro AG	Germany	85	1.8%
Home Depot	US	75	1.6%
Aldi	Germany	73	1.6%
Target	US	72	1.5%
Total Top 10		1,257	26.7%
Next 10		596	12.7%
Total Top 250		4,700	
Estimated market size – top 250 global retailers			
Advertising spend	10%	470	
Mobile spend	5%	24	

Source: 'Global Powers of Retailing 2014 – Retail Beyond begins', Deloitte (2014), Edison Investment Research estimates

The VMob product is designed to take advantage of scale, therefore the key target markets are outside New Zealand. Sales are made at an enterprise level with many stakeholders. This means that the sales process can be lengthy and complex. For example the McDonald's Japan contract, which included a competitive tender, took 12 months to conclude.

Retailers must change – time is of the essence

Exhibit 7: Retail landscape



Source: Edison Investment Research

Retailers and brands face opportunities and challenges because communication devices, information flows and delivery mechanisms are changing consumer behaviour. Using static historical data is no longer sufficient and blanket discount offers simply destroy margin. In its recent report 'Global Powers of Retailing 2014 – Retail Beyond begins', Deloitte described the retail industry as undergoing a period of unprecedented change and disruption, citing mobile network access as the most dramatic example. This report suggests that while it is always possible that a new transformational technology may emerge, it is more likely that existing technologies will be integrated in ways that unlock value for consumers and create significant competitive advantage. The location and mobile device revolution is already affecting the retail experience and VML is at the forefront of this industry transformation. The table above summarises Deloitte's view of the future of retail: "Retail Beyond will be very different from today. Nearly every component of the customer experience will be altered and business models will be challenged to adapt."

A company's mobile strategy can no longer be a 'one size fits all' approach. It must be personalised to each customer based on behaviour, location, personal interests and preferences (from social media) and other external data such as weather and events, which together are likely to affect a customer's purchasing decision.

451 Research in a report, 'The Changing face of Mobile Customer Engagement' May 2014, stated "marketers must be able to customize elements of the mobile app… time is of the essence and those first to market with immersive mobile experiences will benefit from an unparalleled advantage." Real-time insights need to be turned into actionable opportunities that lead to customer acquisition and customer retention. A feedback loop that quantifies voucher/special offer redemption in financial terms (increased revenue, increased profits) provides essential closure.

These recommendations from Yankee Group to retailers concerning their mobile strategy fit neatly with the VMob product:

- Use cloud-based solutions
- Use analytics for communication intelligence and measuring results – "identifying patterns in individual behaviours and preference in real time without manual intervention is a critical step."
- Avoid aggregating and look at individual customer experiences.
- Focus on customer interaction.

Competition

The mobile advertising market has a myriad of players that operate in subsets of the mobile engagement space and offer discrete products.

Exhibit 8: Competitors

Product areas	Key players	VMob point of difference
Coupons – digital market places	Coupons Inc, RetailMeNot	Tailors offer to individual customer
Coupons – redemption platforms	Eagle Eye	Tracks voucher redemption through POS
Beacons	Swirl, Estimote	Adds in-store beacon data to other data
Geo-positioning	Digby's Localpoint, SkyFii	Uses GPS as part of customer targeting
Push messaging	Urban Airship	Vmob measures outcomes in $m not no. of messages
Person based messaging	Kahuna	Vmob is device based; Kahuna is people based
Banner advertisements	Mobile Embrace	VMob does not prepare advertising material
Programmatic buying	RadiumOne	VMob does not prepare advertising material
Customer targeting from household purchasing data	4Info	VMob uses retailer-specific data

Source: Company data, Edison Investment Research estimates

What makes VMob unique?

The key advantages that VMob has over other similar products include:

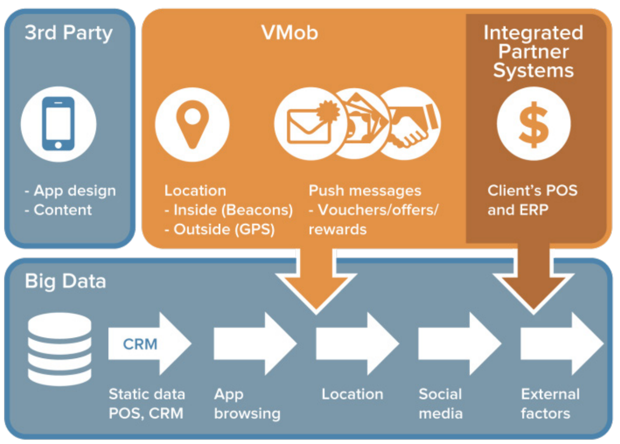
- development of the necessary technology to scale up for high-volume usage using the Microsoft Azure cloud platform;
- the algorithms developed to analyse data;
- customer targeting using Microsoft machine learning tools;
- quantifying ROI of the campaign; and
- awards and industry recognition.

The diagram below illustrates the VMob world, which encompasses all aspects of mobile marketing other than application design and content creation.

Exhibit 9: VMob product world

Source: Company data, Edison Investment Research

Exhibit 10: VMob and big data



Source: Company data, Edison Investment Research

VML has received a number of awards for technical innovation and product effectiveness. These include first prize at the I-Com Big Data Venture Challenge held in Seville, Spain, in April 2014. The criteria used to select the winner included the creation of competitive advantage and driving the bottom-line impact. There were 12 finalists from seven countries. In July 2014 VML was runner up in a global competition for the best use of the Microsoft Azure (Winning with Azure) to solve a problem or relieve a pain point. In the 2014 NZ Tech awards VML won the Innovative Service Product Award and the Innovative Mobile Technology Award.

Strengths, weaknesses, opportunities, threats

Exhibit 11: VML – strengths, weaknesses, opportunities, threats

Strengths	Opportunities
Only end-to-end integrated product	OOB sales cycle is shorter
Support from Microsoft	Global market
Exposure to expected growth in smart phones	93% of top 250 retail sales in store
Exposure to increased mobile advertising spend	Share consolidation
Evolved from loyalty schemes so is customer and results focused	**Weakness**
Relatively small upfront cost	Small NZ company with low global profile
Pricing tied to customer success via volume related revenue	Longer/complex sales cycle
Measureable results	Profits not expected before 2017
Stickiness of clients	Dilutive equity raises likely
Longer contracts (years vs months)	High cost of establishing new markets
Experienced board and management	Spreading resources of small company too thin
High customer retention rates due to systems integration	Product complexity
Threats	Product confusion in market
Key man risk (Scott Bradley owns 33%)	
Reliance on third parties for app development	
Copy-cat developers	
Competing products	
Low initial exposure to sectors outside fast food	

Source: Edison Investment Research

Board

Non-executive chairman Phil Norman was the inaugural chairman of Xero, one of New Zealand's most successful technology companies of recent times. He retired from the Xero Board in 2012 after five years' service. He has had a long association with technology companies and is the managing director of Nortek Management Services, a boutique advisory firm specialising in growth companies. Phil's current director roles include the independent chairmanship of Loyalty New Zealand as well as being a board member in a number of other SMEs. He has served as chairman of the NZ Venture Capital Association and was on the NZ Trade and Enterprise's NZ Beachheads Advisory Board for six years.

There are two non-executive directors:

- Michael Carden is well known in the New Zealand and Silicon Valley Tech industry for his leading edge understanding of successful SaaS business models and proven B2B technology sales and marketing techniques; and
- Sean Joyce is the principal of Sean Joyce – Corporate Counsel, and Auckland based corporate law firm.

CEO Scott Bradley is the only executive director. Further details appear on page 14.

EDISON

Sensitivities

Product complexity. The product is a total solution that measures and optimises promotional campaigns. It uses Microsoft machine learning tools to analyse big data, which comprises historical data drawn from the retailers' systems, the customer's profile and likes from social media sources, locational data both in store and out of store (from both GPS and in-store beacons) and relevant external data. The completeness of the product and its linkages to back office systems add complexity, which on the one hand is good because it will take time for a 'copy-cat' product to be developed. On the other hand, the complexity could be a negative and retailers could opt for a simpler solution such as beacons, which enable the retailer to push messages and offers to the customer when the customer is within beacon range. VML is able to supply retailers with an intelligent beacon module if require although this option does not contain the perfect feedback loop. It may well score highly on the cost-effectiveness scale but will not provide the retailer with the maximum competitive advantage.

Intellectual property protection. VML's product revolves around the adaptation and integration of existing technology and therefore it is unable to obtain patent protection. Its counter to this risk is to keep product development within a small NZ-based team.

Small company from a small country. VML needs to overcome the credibility gap that arises for a small company from a faraway small country. Sales to major global names such as McDonald's and Esso go some of the way to countering this negative. The most important endorsement comes from Microsoft, which sees VML as an important user of its Azure platform and one with the potential to grow significantly. VML is already in the top 10 global data users of the Microsoft Azure platform.

Small number of customers. VML is in the early stages of commercialisation and therefore has a relatively small number of customers. We are forecasting customers numbers to increase to 43 by the end of the forecast period (FY17).

Further financing required. Our forecasts show debt funding from H215. Debt funding will not be possible nor would it be prudent for such an early stage company to take on debt commitments. It will therefore be necessary for VML to raise up to NZ$6m to fund the expected cash shortfall. Our forecasts suggest that VML will be profitable during FY17.

Valuation

VML is in the early stages of commercialisation of a product in a fast-moving marketplace where changing technology is disrupting traditional customer engagement models. VML is at the forefront of this market disruption with a product that provides retailers with a solution to providing one-to-one customer communications. We view DCF as the most appropriate valuation method and relevant comparatives are either in the private domain or are listed companies where the business model, company size and business maturities are not directly comparable. A comparative company analysis is included to provide some external reference data.

DCF

Our approach to valuation has been to determine what assumption the market is making about the size and the timing of the revenue build. We have expressed this as the number of customers in each of the next three years. We have used our forecasts as the base case and we have added an upside case. The parameters used in our DCF valuation are a post-tax weighted average cost of capital of 11.8% and a terminal growth rate of 2%. In all cases we assume that NZ$2.6m per year, which is the current annual R&D spend, is sufficient to fund future product development and in the terminal year we assume there is no further R&D required.

Exhibit 12: DCF sensitivities – number of customers

	2015e	2016e	2017e	DCF (NZ$)	Mkt cap (NZ$m)
Implied in current share price	7	22	35	0.012	15.25
Edison forecasts (base case)	9	28	43	0.038	47.55
Upside case	11	34	51	0.052	65.50

Source: Edison Investment Research

Comparative company analysis

Disruptive technology players like VML are still commercialising and therefore are loss making. We have included in our analysis below comparatives grouped into coupon related, mobile advertising, and mobile engagement enablers. The most relevant group of comparative companies are mobile engagement enablers, however, at this stage none of the listed players are profitable.

Exhibit 13: VML – Comparative companies

	Profitable	Reporting currency	Market cap (local m)	Current EV/S	Next EV/S	Current EV/ EBITDA	Next EV/ EBITDA	Current P/E	Next P/E	Current sales	Next sales	Current EBIT margin	Next EBIT margin
Coupon enablers													
Coupons.com Inc	No	US$	1,283	5.5x	4.2x	53.9x	26.1x	-320.9x	69.8x	225	295	-8.9%	4.6%
RetailMeNot Inc	Yes	US$	795	2.5x	2.2x	7.3x	6.3x	17.0x	14.1x	263	306	23.3%	22.6%
Eagle Eye Solutions Group PLC	No	£	30	5.0x	3.3x	-52.8x	20.2x	N/A	N/A	6	9	-34.6%	-3.9%
Average				*4.4x*	*3.2x*	*30.6x*	*17.6x*	*17.0x*	*41.9x*				
Mobile enablers													
Marin Software Inc	No	US$	300	2.0x	1.7x	-10.3x	-16.7x	-10.6x	-15.1x	98	117	-28.4%	-16.1%
Marketo Inc	No	US$	1,316	8.1x	6.0x	-55.7x	-67.6x	-43.1x	-47.6x	149	201	-20.6%	-12.2%
HubSpot Inc	No	US$	1,161	10.2x	7.9x	-44.5x	-42.0x	-14.5x	-34.3x	113	146	-28.5%	-25.2%
ChannelAdvisor Corp	No	US$	442	3.9x	3.0x	-18.4x	-26.6x	-17.4x	-22.0x	87	111	-28.2%	-16.0%
Average				*6.0x*	*4.6x*	*-32.2x*	*-38.2x*	*-21.4x*	*-29.8x*				
VMob Group Ltd		**NZ$**	**13**	**68.0x**	**5.7x**	**-3.8x**	**-15.8x**	**0.0x**	**0.0x**	2	8	-27.8%	-4.2%

Source: Bloomberg, Edison Investment Research estimates for VML. Note: Prices as 28 November 2014.

Financials

Earnings

The earnings model aims to achieve downside protection through setting a minimum fee and access possible upside through volume-based fees for voucher redemption and push messages above the levels set as part of the minimum fee structure. The most significant costs are for technical staff and the sales and marketing necessary to develop the market, which comprises large offshore retailers. Margin expansion is achieved through an increase in the number of customers and volume-based charges.

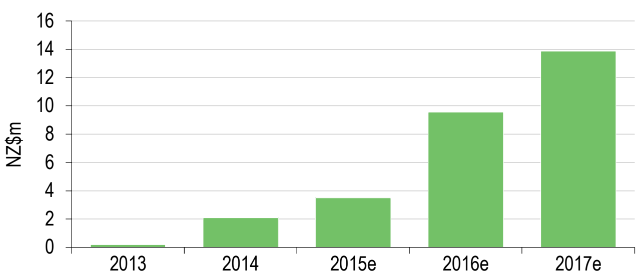
Exhibit 14: VML – forecast assumptions

	2016	2017	2018	2019	2020	2021	2022
No of customers	28	43	55	62	64	66	68
Ave rev/customer pa (NZ$)	$275,000	$293,000	$311,000	$329,000	$350,000	$371,000	$393,000
Costs							
R&D capitalised	100%	100%	100%	100%	100%	100%	100%
R&D Amortisation	20%	20%	20%	20%	20%	20%	20%
Increase in staff costs	34%	1%	3%	3%	3%	3%	3%

Source: Edison Investment Research estimates

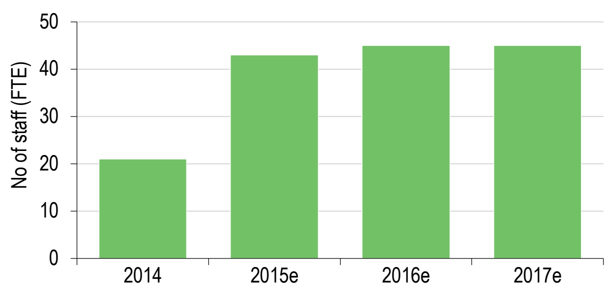
A key performance measure for growth companies in the technology space is ACMR. In the last 12 months ACMR has grown from NZ$0.2m to an estimated NZ$2.1m once the latest contract win for McDonald's Japan has been activated. ACMR, full time equivalent employees (FTE) and other key measures are set out in the charts below:

Exhibit 15: VML – ACMR growth



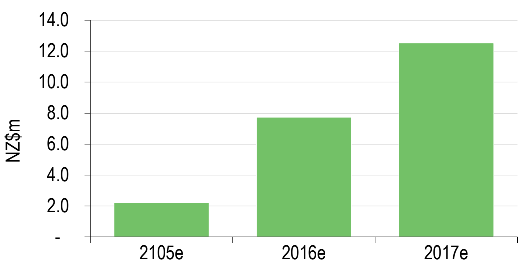
Source: Company data, Edison Investment Research estimates

Exhibit 16: VML – FTE



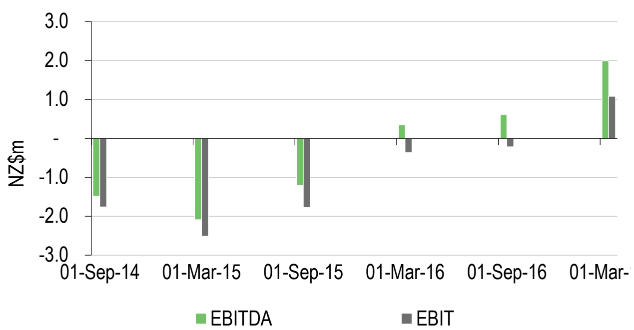
Source: Company data, Edison Investment Research estimates

Exhibit 17: VML – revenue growth



Source: Edison Investment Research estimates

Exhibit 18: VML – EBITDA and EBIT



Source: Edison Investment Research estimates

Balance sheet and cash flow

Since listing in August 2012 VML has raised almost NZ$9m by way of series of private placements. Our forecasts show VML using debt funding from H215. Debt funding will not be possible nor would it be wise for VML to debt fund its operations. Additional equity funding, which we estimate to be NZ$6m, will be required during the forecast period.

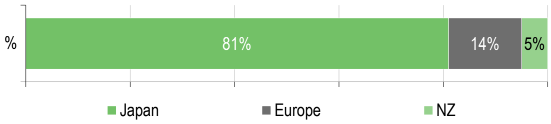
The company intends to remain ungeared while it is in the commercialisation phase and until it becomes profitable. No dividends are to be paid during the forecast period.

Exhibit 19: Financial summary

NZ$000s	2014	2015e	2016e	2017e
31 March	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	512	2,215	7,730	12,535
Cost of Sales	0	(487)	(1,855)	(3,134)
Gross Profit	512	1,728	5,875	9,401
EBITDA	(1,288)	(3,680)	(866)	2,597
Operating Profit (before goodwill amort. and except.)	(1,584)	(4,385)	(2,147)	856
Intangible (goodwill) amortisation	0	0	0	0
Exceptionals	0	0	0	0
Other	(440)	0	0	0
Operating Profit	(2,024)	(4,385)	(2,147)	856
Net Interest	0	0	(131)	(334)
Profit Before Tax (norm)	(1,584)	(4,385)	(2,278)	522
Profit Before Tax (FRS 3)	(2,024)	(4,385)	(2,278)	522
Tax	0	0	0	0
Profit After Tax (norm)	(1,584)	(4,385)	(2,278)	522
Profit After Tax (FRS 3)	(2,024)	(4,385)	(2,278)	522
Average Number of Shares Outstanding (m)	1,025.9	1,263.3	1,263.3	1,263.3
EPS - normalised (c)	(0.2)	(0.3)	(0.2)	0.0
EPS - normalised and fully diluted (c)	(0.2)	(0.3)	(0.2)	0.0
EPS - (IFRS) (c)	(0.2)	(0.3)	(0.2)	0.0
Dividend per share (c)	0.0	0.0	0.0	0.0
Gross Margin (%)	100.0	78.0	76.0	75.0
EBITDA Margin (%)	-251.6	-166.1	-11.2	20.7
Operating Margin (before GW and except.) (%)	-309.4	-198.0	-27.8	6.8
BALANCE SHEET				
Fixed Assets	1,546	3,341	4,685	5,591
Intangible Assets	1,497	3,226	4,515	5,348
Tangible Assets	49	115	169	242
Investments	0	0	0	0
Current Assets	5,937	28	360	1,126
Stocks	0	0	0	0
Debtors	305	149	520	843
Cash	5,632	(121)	(160)	284
Other	0	0	0	0
Current Liabilities	(564)	(836)	(4,789)	(5,939)
Creditors	(564)	(336)	(789)	(1,039)
Short term borrowings	0	(500)	(4,000)	(4,900)
Long Term Liabilities	(117)	(117)	(117)	(117)
Long term borrowings	0	0	0	0
Other long term liabilities	(117)	(117)	(117)	(117)
Net Assets	6,802	2,417	139	661
CASH FLOW				
Operating Cash Flow	(1,133)	(3,752)	(783)	2,524
Net Interest	23	0	(131)	(334)
Tax	0	0	0	0
Capex inc R&D	(1,246)	(2,501)	(2,624)	(2,647)
Acquisitions/disposals	0	0	0	0
Financing	8,076	0	0	0
Dividends	0	0	0	0
Net Cash Flow	5,720	(6,253)	(3,539)	(457)
Opening net debt/(cash)	(169)	(5,632)	621	4,160
HP finance leases initiated	0	0	0	0
Other	(258)			
Closing net debt/(cash)	(5,632)	621	4,160	4,616

Source: VMob Group data, Edison Investment Research estimates

EDISON

Contact details	Revenue by geography
117 Pakenham Street West Wynyard Quarter Auckland 1010 New Zealand +64 9 358-1500 www.vmob.co	

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 11-15e	N/A	ROCE 14	N/A	Gearing 14	N/A	Litigation/regulatory	○
EPS 13-15e	N/A	Avg ROCE 11-15e	N/A	Interest cover 14	N/A	Pensions	○
EBITDA 11-15e	N/A	ROE 15	N/A	CA/CL 14	10.5	Currency	◐
EBITDA 13-15e	N/A	Gross margin 14	100%	Stock days 14	N/A	Stock overhang	○
Sales 11-15e	N/A	Operating margin 14	N/A	Debtor days 14	217	Interest rates	○
Sales 13-15e	N/A	Gr mgn / Op mgn	N/A	Creditor days 14	278	Oil/commodity prices	○

Management team

CEO: Scott Bradley

Scott is the company's founder. During his 25 years in technology, analytics and marketing he has worked with the world's largest brands., including Coca Cola, AC Nielsen & Publicis. Scott has specialised in customer-focused engagement solutions, which has led him to develop a solution for one-to-one customer communication.

CFO: Steven Allan

Steve has worked in senior financial management positions in media and advertising. He was VP finance for dmg world media in North America. Most recently he was CFO of Reachmedia in NZ.

COO: Bob Drummond

Bob has 20 years' experience in the ICT industry with a focus on executing growth strategies. He commenced his career at Deutsche Telekom, Germany after completing his engineering degree at Auckland University

CTO: David Inggs

David has been involved with five successful start-up technology companies in NZ since 1997. He has managerial experience in all aspects of software product (ISV) and technology services businesses.

Principal shareholders	(%)
Sharbo Ltd (Scott Bradley)	32.9
Snakk Trustee	7.6
PJ Norman	4.0
Jarden Custodians	3.6
Jaobq Pty Ltd	2.5
HSBC Nominees NZ	2.1
Accident Compensation Corporation	1.4

Companies named in this report

Coupons Com Inc (NYSE:COUP), RetailMeNot Inc (NASDAQ:SALE), Eagle Eye Solutions Group PLC (LON:EYE), Mobile Embrace (MBE.ASX), Milennial Media Inc (NYSE:MM), Marchex Inc (NASDAQ:MCHX), Perion Network Ltd (NASDAQ:PERI),Callidus Software Inc (NASDAQ.CALD), Selectica Inc (NASDAQ:SLTC), SciQuest Inc (NASDAQ:SQI),Rocket Fuel Inc (NASDAQ:FUEL), Marin Software Inc (NYSE:MRIN), Marketo Inc (NASDAQ:MKTO), HubSpot Inc (NYSE:HUBS), ChannelAdvisor Corp (NYSE:ECOM)

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
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand