EDISON

NXT Company Spotlight

Snakk Media

Media

09 May 2017

Q4 business update

Snakk Media (SNK) has estimated annual advertising revenues to March 2017 at NZ$10.6m, a shade ahead of the prior year ($10.5m). As flagged in April's key operating milestone (KOM) updates, Q417 advertising revenues underperformed budget. Market fundamentals remain strongly in favour of mobile advertising. A shift in business model, with a fast-growing self-serve option, is reducing achievable gross margins, although carries a good operating margin. Management has acted to realign costs to reflect this change and additional investment has been made in Australian expansion. The Manji Family Trust has subscribed to additional shares to assist finding working capital and now holds 17.2% of the equity.

Q417 revenue and gross margin pressure

In the KOM update for Q3, advertising revenues were reported to have risen post earlier investment and with the benefit of seasonality. Q417, however, underperformed budget, meaning that the 51% KOM target for compensation to revenue was missed by some way at 42%. Since Q317, Snakk has been offering its clients a self-service option for managing their own campaigns on the UberMedia platform (UberMedia is the group's key technology partner across Australia, New Zealand and South-East Asia). This revenue stream has built strongly and has good momentum into FY18. However, it achieves a lower gross margin. Given that the cost of provision is obviously much less than for full service, operating margins are attractive. The relevance of gross margin as a KOM will therefore reduce as self-service grows in the mix. The industry landscape remains highly competitive in the serviced offer, with discounting and rebates continuing features. Snakk's FY17 results will be released by 31 May 2017, at which point the FY18 KOMs will be set.

Manji subscription

The trading pressures have led to a squeeze on cash flow, compromising the group's ability to fund the requisite working capital. The Manji Family Trust, which previously built a holding of 13.3%, has subscribed to additional shares raising $110k at a price of $0.20, a substantial premium to the current price of NZ$0.09 (and the 60-day average to 28 April of $0.19). Its stake is now at 17.2% of the equity.

Valuation: Sharp fall post KOM updates

Snakk's share price dropped sharply after the earlier KOM updates, from $0.27 to current levels. At this level, it is not possible to derive appropriate multiples for peer comparison. Global peers trade at a median of 1.8x sales; 3.1x gross profit.

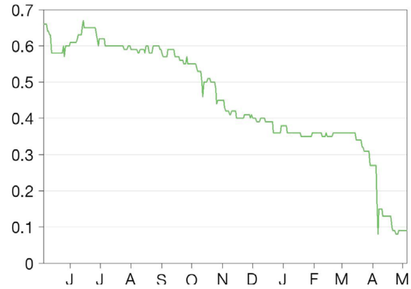
Historical financials

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)	N/A	N/A
03/15	9.2	3.9	(4.0)	(25.6)	N/A	N/A
03/16	10.5	6.6	(0.6)	(3.7)	N/A	N/A
03/17	10.6	6.4	-	-	N/A	N/A

Source: Company accounts.

Price	**NZ$0.09**
Market cap	**NZ$1.5m**
Net cash (NZ$m) at 30 September 2016	1.6

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

- Click-through rates above industry level.
- 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

Q417 KOMs missed

Snakk is due to issue its preliminary results by 31 May 2017, when it will also announce KOMs for FY18. In the previous financial year, the Q1 KOM update was issued in late July.

Exhibit 1: Key operating milestones FY17

	Q117 actual (%)	Q217 actual (%)	Q317 actual (%)	Q417 actual (%)	FY17 actual (%)	2017 target (%)
Click-through rate	0.95	0.98	0.96	0.97	**0.97**	**1.00**
Gross margin	67	61	60	52	**60**	**62**
Compensation ratio	46	65	41	55	**51**	**42**
Staff turnover	12	9	12	5	**33**	**24**

Source: Snakk Media

As discussed above, the KOMs of compensation to advertising revenue and for gross margin have both been undershot. By the end of May when the preliminary figures for the year are released, it should be clearer if Q4's trading was an anomaly or not. The structural and market changes underlying the reduced gross margin may necessitate a revision in the FY18 KOM for that metric.

The click-through rate at 0.97% was slightly below the 1.00% target for the year, but this remains well above the (mobile advertising) industry rate of around 0.62%.

Staff turnover in the mobile advertising sector – and much of the tech space – is inherently high and the level for Snakk for FY17 at 33% is not of itself a factor for concern. Given the relatively small number of FTE employees (now 42), one or two more or fewer staff make a mathematically meaningful impact on the ratio.

Continuing investment

Alongside the KOM data, the business update outlines further investment in building the infrastructure to support business growth, beefing up its presence in Melbourne and Brisbane. Future plans include further modest investment in the Melbourne office, in building the group's data analytics capabilities and in customer support for the increasingly important self-service offering. The South-East Asia business is to be restructured and we would expect further information on this with the full year announcement.

In terms of the cost-saving and broader restructuring programme, detail is (as yet) scant. The indication is that the benefit should accrue from Q217 onwards.

The subscription by the Manji Family Trust (Raf Manji is an ex-London investment banker, now local politician and investor in Christchurch, New Zealand) provides $110k to fund short-term working capital. The trust had been progressively building its holding and completion of the placement on 5 May will bring its stake up to 17.2% of the enlarged share capital.

Peer comparison

Snakk's share price dropped sharply post the KOM updates in early April, falling from $0.27m to $0.09 initially, before staging a modest rally, then settling back to the NZ$0.09 level. At this level and using the cash balances at the half-year, the group has an implied negative EV, a situation not that unusual but nevertheless rendering a peer comparison based on redundant 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	180	210	2.8	10.0	27.8	32.8
Criteo	CRTO:NASDAQ	US$	3,543	3,368	1.9	5.2	35.8	-
SITO Mobile	SITO: NASDAQ	US$	51	50	1.7	3.1	54.8	-
RNTS	RNM:FRA	€	229	330	4.1	13.8	30.0	-
Matomy	MTMY: LON	GBP	106	99	0.6	2.8	22.9	6.1
RhythmOne	RTHM:LON	GBP	217	210	1.3	3.2	39.8	-
Median					**1.8**	**3.1**	**32.9**	**19.5**

Source: Bloomberg. Note: Prices as at 2 May 2017. Sales and net debt are last reported.

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