

Snakk Media

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 The group had NZ\$1.1m of cash at end March, but this figure is outdated so, at this stage, it is not possible to determine the group's EV.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 |

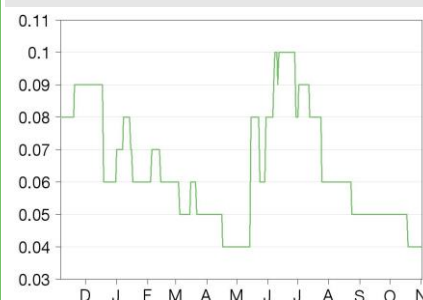
Source: Company accounts

Media

6 November 2018

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

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Snakk Media coverage is provided through the NXT Research Scheme

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.

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