

FY18 result in line with guidance

Crowd Mobile (CM8) is a global technology company that monetizes products including infotainment, music, games and videos by leveraging digital influencers and social media channels through its proprietary technology platforms. The company reported FY18 revenue of \$38.6m and underlying EBITDA of \$3.6m, in line with the guidance it provided the market in June. The company has also announced it will ask shareholders to approve a change of name to Crowd Media Holdings at the next AGM. We have made minor adjustments to our FY19 and FY20 forecasts which we released in our initiation report of 8 August. Having rolled over to the FY19 financial year, our DCF valuation is \$0.26/share (previously \$0.24/share) using a WACC of 13.9%, beta of 1.7, and terminal growth rate of 2.0%. The current share price implies a negative CAGR of 10.7% in free cashflows from FY19 to FY28 versus the CAGR of 3.0% in our base case DCF valuation. If CM8 were to match growth expectations for digital media, the DCF valuation would rise to \$0.60/share, implying a CAGR in free cashflows of 11.7%.

FY18 Result and Outlook

CM8 has announced FY18 revenues of \$38.6m (versus \$44.2m in FY17), underlying EBITDA of \$3.6m (vs \$11m) after excluding write-downs on the value of its subscription business and non-cash share-based payments. Operating cashflows for FY18 were \$2.6m (vs \$4.5m in FY17). The decline in FY18 earnings was due to unforeseen regulatory changes in the Subscription business, which resulted in a 30% drop in year-on-year revenues. The division, while still profitable, saw EBITDA almost halve as a result of the change in circumstances. Offsetting this was a steady performance from the Q&A division which reported flat underlying operating earnings of \$5.1m and rapid growth from the newly established Crowd Media business, albeit from a very small base. The influencer marketing arm posted revenues of \$0.5m in FY18 and a better than expected operating loss of \$2.5m.

The company has pegged FY19 as a year of transition for the business with the focus on developing new revenue opportunities, continued growth expected from Crowd Media and improving margins in Q&A from the use of Artificial Intelligence (AI) technology. We have adjusted our earnings forecasts for FY19 and FY20 with a slight upgrade to EBITDA in both years and minor downgrade to NPAT due a small lift in interest cost forecasts.

Valuation

Our base-case DCF valuation of \$0.26/share (previously \$0.24/share) implies a 10 year CAGR in free cashflows to FY28e of 3.0%. We have conducted an upside case DCF valuation which reflects a CAGR of 11.7% over the same period, and which more closely maps the rate at which digital media is expected to grow. This upside case valuation is \$0.60/share. The current share price of \$0.05/share suggests a negative CAGR of 10.7% in cashflows for the next 10 years. In our view, demonstration of sustainable growth in free cashflows will result in CM8's share price closing the gap from current levels. We acknowledge however that this may take some time while the company redefines its earnings growth profile and regains investor confidence.

Historical earnings and RaaS Advisory estimates

Year end	Revenue (A\$m)	EBITDA underlying*	EBITDA reported	NPAT reported	EPS* (c)	P/E (x)	EV/EBITDA (x)
06/17	43.9	11.0	9.4	(0.1)	-0.05	n.a	0.25
06/18	38.6	3.6	(23.2)	(26.0)	0.11	n.a	3.31
06/19e	37.6	4.0	3.9	2.3	1.02	4.9	2.89
06/20e	47.3	7.5	7.4	4.8	2.14	2.3	0.89

Source: CM8 data, RaaS Advisory * EBITDA underlying and EPS exc share based payments and one off items

Digital Media

3 September 2018

Share details

ASX Code	CM8
FWB Code	CM3
Share price at 3 August 18	\$0.05
Market Capitalisation	\$11.1M
Shares on issue	222M
Net debt at 30 June '18	\$0.7M
Free float	~73%

Share performance (12 months)



Upside Case

- Board and management team experienced in building digital businesses
- Established audience and presence in the social media and digital influencer sector
- Opportunity to reduce cost base using Artificial Intelligence and machine learning

Downside Case

- Audience is fickle and so constantly need to develop and offer the next big thing
- More than 80% of revenues and costs offshore and weighted towards the Euro
- Company's first acquisition, Track, has produced negative returns

Board of Directors

Theo Hnarakis	Non-Executive Chairman
Domenic Carosa	CEO/Executive Director
Sophie Karzis	Non-Executive Director

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FY18 Results Analysis

Crowd Mobile has three core divisions; Questions & Answers, Crowd Media and Subscription; which are supported by a global m-payments and distribution network. The company reported a 12.1% decline in revenue in FY18, in line with guidance provided to the market in June 2018. Underlying EBITDA, which has been adjusted for the write-down of the subscription business and non-cash share-based payments was \$3.6m. The net loss for the year was \$26.0m as set out in the following results snapshot. CM8 ended the year with net debt of \$0.7m, lower than its guidance given in June and operating cashflow was \$2.6m, in line with its guidance.

In A\$M unless otherwise stated	FY17a	FY18a	% change	RaaS FY18e
Revenue	43.9	38.6	(12.1%)	38.5
Gross Profit	34.6	29.3	(15.1%)	29.9
EBITDA underlying	11.0	3.6	(67.4%)	3.6
EBITDA reported	9.4	(23.2)	(346.3%)	2.8
EBIT	4.4	(26.8)	(714.1%)	(0.8)
NPAT	(0.1)	(26.0)	n.m	(28.2)
EPS (cents)	(0.1)	(11.7)	n.m	(12.5)

Source: Company Data, RaaS forecasts

The decline in earnings was driven by the subscription business, which while still profitable, experienced a 48% decline in EBITDA. Underlying EBITDA in the Q&A division was flat, although revenue was better than we had forecast due to more questions being answered in H2 FY18 (7.1m versus our forecast for 6.7m). Overall Q&A's questioned answered increased by 13% year on year. Revenue generated per question (\$1.72) was in line with our forecasts. Similarly, the new Crowd Media business delivered a better than expected operating loss of \$2.5m. As the following exhibit sets out, Q&A's gross profit was largely in line with our expectations but employee costs were higher. The subscription division's revenues were a little lower than our expectations and employee costs higher. We expect cost reduction to continue to be a feature of this division's results.

In A\$M unless otherwise stated	FY17a	FY18a	% change	RaaS FY18e
Q&A revenues	24.9	24.7	(0.6%)	24.2
Q&A COGS	6.8	6.0	(11.0%)	5.5
Q&A Gross Profit	18.1	18.7	3.3%	18.7
Gross Profit Margin	73%	76%	3.9%	77%
Marketing costs	5.6	6.0	7.8%	6.7
Employee Costs	5.2	6.3	21.5%	5.0
Other costs	2.1	1.3	(40.2%)	1.1
Q&A EBITDA	5.2	5.1	(1.9%)	6.0
Subscription Revenues	19.0	13.3	(29.9%)	13.9
Subscription COGS	2.6	2.8	7.5%	2.7
Subscription Gross Profit	16.4	10.6	(35.8%)	11.1
Gross Profit Margin	86%	79%	(8.4%)	80%
Marketing costs	7.1	3.0	(58.0%)	4.5
Employee Costs	1.5	1.7	11.2%	1.1
Other costs	1.1	2.4	117.3%	1.4
Subscription EBITDA	6.7	3.5	(48.2%)	4.2
Crowd Media revenues	-	0.5		0.4
Crowd Media COGS	-	0.5		0.3
Crowd Media Gross Profit	-	0.0		0.1
Gross Profit margin	n/a	2%		18%
Marketing costs	-	1.5		0.0
Employee Costs	-	1.2		1.6
Other costs	-	-		2.2
Crowd Media EBITDA	-	(2.5)		(3.7)
Unallocated corporate costs	(1.0)	(2.5)	164.9%	(2.9)
EBITDA Reported	9.4	(23.2)		(23.2)
Underlying EBITDA*	11.0	3.6	(67.4%)	3.6

Source: Company Data, RaaS forecasts *Underlying EBITDA includes adding back non-cash share-based payments and exchange rate differences not shown in this table.

Earnings adjustments

Our forecasts for FY19 and FY20 have been adjusted slightly to reflect the higher base set by the Q&A division. This has resulted in a 3.8% increase in our EBITDA forecast for FY19 but a smaller 1.9% increase to our FY20 EBITDA forecast. NPAT has been increased respectively by 2.2% and 0.6% in FY19 and FY20. We have set out the adjustments in the following table.

Exhibit 3: Earnings adjustments to FY19 and FY20						
	FY19 old	FY19 new	% chg	FY20 old	FY20 new	% chg
Revenue	37.3	37.6	0.7%	46.9	47.3	0.7%
Gross Profit	26.9	27.1	0.8%	31.1	31.3	0.7%
EBITDA underlying	3.8	4.0	3.8%	7.4	7.5	1.9%
EBITDA reported	3.7	3.9	3.9%	7.3	7.4	2.0%
EBIT	3.7	3.8	2.8%	7.2	7.3	1.5%
NPAT	2.2	2.3	2.2%	4.7	4.8	0.6%
EPS (cents)	1.0	1.0	2.2%	2.1	2.1	0.6%

Source: RaaS forecasts

DCF valuation

We use the discounted cashflow methodology to value CM8 as we believe this more accurately reflects its growth stage in its lifecycle. We have used a beta of 1.7, terminal growth rate of 2.0% and a WACC of 13.9%. This delivers a DCF/share of A\$0.26 as Exhibit 4 sets out below.

Exhibit 4: DCF Valuation	
Parameters	
Discount Rate / WACC	13.9%
Beta	1.7
Terminal growth rate assumption	2.0%
In A\$m	
Present value of cashflows	37.9
Present value of terminal value	21.0
PV of enterprise	59.0
Deduct debt at last balance date (30 June 2018)	0.7
Net value	58.2
Net value per share	\$0.26

Source: RaaS Advisory

We have also undertaken a reverse DCF to determine what the current share price implies. Using the same WACC, Beta and terminal growth parameters, we determine that the current share price of \$0.05/share assumes a negative CAGR of 10.7% for free cashflows from 2019 to 2028. This, in our view, has factored in almost all the downside risk and no upside risk, despite the growth historically delivered by the company. From 2014 to 2017, the CAGR in EBIT was 28%. Our base valuation assumes a CAGR in free cashflows of 3.0% from 2019 to 2028 and the upside valuation which we will discuss in the section on scenario analysis assumes a CAGR in free cashflows of 11.7%.

Exhibit 5: Valuation discussion		
	Price	What it implies
Reverse DCF	\$0.05	Assumes a CAGR of (10.7%) in free cashflows for the 10 years to June 2028
Base valuation	\$0.26	Assumes a CAGR of 3.0% in free cashflows for the 10 years to June 2028
Upside valuation	\$0.60	Assumes a CAGR of 11.7% in free cashflows for the 10 years to June 2028
Downside valuation	\$0.02	Assumes a CAGR of (37.1%) in free cashflows for the 10 years to June 2028

Source: RaaS Advisory

Exhibit 6: Financial Summary

Crowd Mobile (CM8.AX)						Share price (31 August 2018)						A\$ 0.05				
Profit and Loss (A\$m)						Interim (A\$m)										
Y/E 30 June	FY16A	FY17A	FY18F	FY19F	FY20F	H117A	H217A	H118A	H218F	H119F	H219F					
Revenue	37.0	43.9	38.6	37.6	47.3	21.5	22.7	21.1	17.5	17.7	19.9					
EBITDA underlying *	8.8	11.0	3.6	4.0	7.5	4.7	6.2	2.8	0.4	1.7	2.3					
EBITDA reported	6.3	9.4	(23.2)	3.9	7.4	0.8	3.6	0.5	(27.4)	1.6	2.2					
Depn	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)	(0.9)	0.8	(0.3)	(25.8)	0.9	1.3					
Amort	(3.6)	(4.8)	(3.4)	(0.0)	(0.0)	-	-	-	-	-	-					
EBIT	2.6	4.4	(26.8)	3.8	7.3	(0.9)	0.8	(0.3)	(25.8)	0.9	1.3					
Interest	(2.0)	(4.2)	(1.5)	(0.5)	(0.5)	(0.9)	0.8	(0.3)	(25.8)	0.9	1.3					
Tax	0.3	(0.3)	2.3	(1.0)	(2.0)	(0.8)	0.4	(0.1)	(11.5)	0.4	0.6					
Minorities	0.0	0.0	0.0	0.0	0.0	(0.8)	0.4	(0.7)	(11.6)	0.4	0.6					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-					
NPAT pre significant items	0.9	(0.1)	(26.0)	2.3	4.8	30.0	30.0	30.0	30.0	30.0	30.0					
Significant items	0.0	0.0	0.0	0.0	0.0	1.5	2.9	2.6	0.0	0.8	1.4					
NPAT (reported)	0.9	(0.1)	(26.0)	2.3	4.8	1.6	3.0	2.8	0.3	0.7	1.5					
Cash flow (A\$m)						Divisions										
Y/E 30 June	FY16A	FY17A	FY18F	FY19F	FY20F	H117A	H217A	H118A	H218F	H119F	H219F					
EBITDA	6.3	9.4	(23.2)	3.9	7.4	Rev - Q&A	10.6	14.2	12.6	12.2	12.2					
Interest	(2.0)	(4.2)	(1.5)	(0.5)	(0.5)	Rev - Subscriptions	10.9	8.1	8.4	4.9	4.1					
Tax	(0.2)	(2.2)	(1.1)	(1.0)	(2.0)	Rev - Crowd.Agency	-	-	0.1	0.4	1.4					
Working capital changes	2.9	1.5	28.4	(1.8)	0.1	COGS	(4.8)	(4.6)	(4.5)	(4.8)	(4.4)					
Operating cash flow	7.0	4.5	2.6	0.6	5.0	Costs - Marketing	(6.6)	(6.1)	(6.8)	(4.4)	(4.3)					
Mtce capex	(0.2)	(0.2)	(0.3)	(0.0)	(0.0)	Costs - Employee	(3.3)	(3.4)	(4.1)	(5.2)	(3.6)					
Free cash flow	6.8	4.4	2.3	0.6	5.0	Costs - Other operating	(2.1)	(1.8)	(2.3)	(2.6)	(1.8)					
Growth capex	0.0	0.0	(0.2)	(0.2)	(0.2)	Costs - Non operating	(1.4)	(0.5)	(1.6)	(1.3)	(1.4)					
Acquisitions/Disposals	(26.8)	0.0	0.0	0.0	0.0	EBITDA reported	3.3	6.1	1.7	0.7	1.7					
Other	0.0	(0.0)	0.0	0.0	0.0											
Cash flow pre financing	(20.0)	4.3	2.1	0.4	4.8	Margins, Leverage, Returns		FY16A	FY17A	FY18F	FY19F	FY20F				
Equity	11.6	8.5	0.0	0.0	0.0	EBITDA		17.1%	21.4%	-60.1%	10.3%	15.7%				
Debt	10.2	(9.6)	(4.7)	0.0	0.0	EBIT		7.0%	10.0%	-69.6%	10.1%	15.5%				
Dividends paid	(0.2)	(0.3)	0.0	0.0	0.0	NPAT pre significant items		2.4%	-0.2%	(67.5%)	6.0%	10.1%				
Net cash flow for year	1.5	2.9	(2.5)	0.4	4.8	Net Debt (Cash)		14.5	2.8	0.7	0.4	(4.4)				
Balance sheet (A\$m)						Net debt/EBITDA (x)	(x)	2.3	0.3	n/a	0.1	(0.6)				
Y/E 30 June	FY16A	FY17A	FY18F	FY19F	FY20F	ND/ND+Equity (%)	(%)	(213%)	(10%)	(19%)	(6%)	27%				
Cash	2.9	5.2	2.6	2.9	7.7	EBIT interest cover (x)	(x)	0.8	1.0	n/a	0.1	0.1				
Accounts receivable	11.4	11.2	7.8	9.8	12.3	ROA		5.3%	9.2%	-90.9%	26.8%	38.4%				
Inventory	0.0	0.0	0.0	0.0	0.0	ROE		4.1%	(0.3%)	(150.7%)	39.1%	51.2%				
Other current assets	0.7	0.4	0.8	0.8	0.8	ROIC		76%	62%	-1302%	231%	91%				
Total current assets	15.0	16.8	11.2	13.5	20.8	NTA (per share)		0.02	0.07	0.02	0.03	0.05				
PPE	0.4	0.4	0.5	0.7	0.8	Working capital		6.9	6.4	2.9	4.7	4.6				
Goodwill	17.6	17.5	0.3	0.3	0.3	WC/Sales (%)		19%	15%	8%	13%	10%				
Investments	0.0	0.0	0.0	0.0	0.0	Revenue growth		19%	(12%)	(3%)	26%					
Deferred tax asset	0.7	0.8	0.5	0.5	0.5	EBIT growth pa		69%	n/a	(114%)	93%					
Other intangibles	15.4	10.6	0.4	0.4	0.3	Pricing						FY16A	FY17A	FY18F	FY19F	FY20F
Total non current assets	34.1	29.3	1.7	1.8	1.9	No of shares (y/e)	(m)	185	181	222	222	222				
Total Assets	49.2	46.1	12.9	15.3	22.8	Weighted Av Dil Shares	(m)	185	181	222	222	222				
Accounts payable	4.5	4.8	4.9	5.1	7.7	EPS Reported	cps	0.56	(0.05)	(11.71)	1.02	2.14				
Short term debt	10.1	6.7	3.3	3.3	3.3	EPS Normalised/Diluted	cps	0.56	(0.05)	0.11	1.02	2.14				
Tax payable	1.5	0.8	0.0	0.1	0.1	EPS growth (norm/dil)		n/a	-329%	790%	110%					
Other current liabilities	0.7	0.1	0.1	0.0	0.0	DPS	cps	-	-	-	-	-				
Total current liabilities	16.9	12.4	8.3	8.4	11.1	DPS Growth		n/a	n/a	n/a	n/a	n/a				
Long term debt	7.3	1.3	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%				
Other non current liabs	3.7	2.5	0.0	0.0	0.0	Dividend imputation		30	30	30	30	30				
Total long term liabilities	11.0	3.8	0.0	0.0	0.0	PE (x)		8.9	-	-	4.9	2.3				
Total Liabilities	27.9	16.2	8.3	8.4	11.1	PE market				15.2	15.2	15.2				
Net Assets	21.3	29.9	4.7	6.9	11.7	Premium/(discount)				(68%)	(85%)					
Share capital	20.1	28.2	28.2	28.2	28.2	EV/EBITDA		3.8	1.3	0.5	3.0	0.9				
Accumulated profits/losses	(2.1)	(2.2)	(28.3)	(26.0)	(21.2)	FCF/Share	cps	3.9	2.6	1.3	0.3	2.3				
Reserves	3.4	4.0	4.7	4.7	4.7	Price/FCF share		1.3	1.9	3.7	18.7	2.2				
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		78.3%	51.5%	26.9%	5.3%	45.4%				
Total Shareholder funds	21.3	29.9	4.7	6.9	11.7	* EBITDA underlying excludes non cash share based payments and one-time items										

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

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Effective Date: 11th May 2017



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