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NXT Company Spotlight

Snakk Media

Media

7 June 2018

Loss significantly reduced to near breakeven

The restructuring initiated in FY17 started to benefit the group in Q218 and Snakk Media finally returned to profit in its second half. Revenues for FY18 were close to the prior year at NZ$10.3m (NZ$10.6m), with increased self-service mobile advertising revenues offset by a decline in business in Southeast Asia (where overheads have been pared back). The cost base in FY19e will be lower with the full-year benefit. The group had year-end cash of NZ$1.1m, just below the current market capitalisation of NZ$1.3m.

Substantial cost reductions

Employee costs for FY18 at NZ$3.8m were down from NZ$5.8m in the prior year, with other operating expenses also trimmed significantly to NZ$2.4m (NZ$3.7m). The group returned a profit after tax of NZ$0.35m for H218; the first six-month period in profit for six years. Resource was focused on those regions and activities with the better potential for positive returns, particularly Melbourne and Brisbane, with the Sydney team reorganised more recently. Management expects operating expenses to be lower still in FY19, showing a full-year benefit. In Southeast Asia, it is looking at how to offer managed services for its highly targeted geo and audience in-app advertising on a profitable basis. Self-service, introduced as an alternative service for clients that prefer to be more 'hands-on', has grown well, to 16% of group revenues. However, with negligible visibility, management is now less confident the momentum will be sufficient to drive growth. Snakk already gathers and blends consumer behavioural data to inform its audience targeting for its managed services products. It may be able to monetise this more effectively through charging for access or for activation fees.

Financial position strengthened

At the end of March 2018, Snakk had a cash position of NZ$1.1m, up from NZ$0.5m at the half year. There was an operating cash inflow in H218, which all but eliminated the H118 outflow, reflecting the reduced costs. The subscription by the Manji Family Trust raised NZ$108k in H118. Management continues to appraise capital strategy options.

Valuation: Little for operating business

Snakk's share price has lifted off the lows reached in April and May 2018. 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.

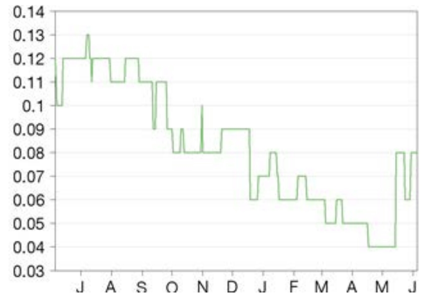
Historical financials

Year end	Revenue (NZ$m)	Gross profit (NZ$m)	PBT (NZ$m)	EPS (c)	EV/gross profit (x)	EV/Sales (x)
03/15	9.2	3.9	(4.0)	(25.6)	0.06	0.02
03/16	10.5	6.6	(0.9)	(6.6)	0.03	0.02
03/17	10.6	6.3	(3.2)	(20.2)	0.04	0.02
03/18	10.3	6.0	(0.3)	(1.6)	0.04	0.02

Source: Company accounts

Price	NZ$0.08
Market cap	NZ$1.3m

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.
- UberMedia technology partnership.
- Strengthened cash performance.

Bear

- Slower growth of self-service than anticipated.
- Highly competitive sector.
- Comparatively small scale.

Analysts

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Snakk Media coverage is provided through the NXT Research Scheme

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FY19 revised KOMs

Snakk has now published its performance against target key operating milestones (KOMs) for FY19e. The table below shows these in progression.

Exhibit 1: Performance against KOMs

	Q118 (%)	Q218 (%)	Q318 (%)	Q418 (%)	FY18 target (%)	FY18 actual (%)	FY19e target (%)
Gross margin	57	59	56	60	58	58	58
Compensation ratio	44	37	29	34	42	36	34
Staff turnover	12	11	34	10	33	53	40
Click-through rate	0.97	0.98	0.98	0.98	0.97	0.98	N/A

Source: Snakk Media

The fourth KOM is currently under review. Alternatives are being explored and a decision should be made by the end of June 2018.

The new gross margin KOM is unchanged from prior year (target and actual), while the compensation ratio reflects the level of underlying cost that has been taken out of the business. Gross margin overshot the target in Q418, reflecting a greater proportion of the higher-margin managed service income in the mix than originally forecast. The new target compensation ratio for FY19e is in line with that achieved for Q418.

The staff turnover ratio is inherently volatile as the business employs a relatively small number of people.

Half-by-half shows profit progression

Exhibit 2: Half-year revenues by geography (NZ$)

	H117	H217	FY17	H118	H218	FY18	Growth
Revenue	4,706,095	5,919,820	10,625,915	5,330,677	4,920,716	10,251,393	-4%
Net operating revenue			6,348,323			5,976,528	-6%
PBT			(3,174,426)			(266,896)	
PAT	(1,872,496)	(1,301,930)	(3,174,426)	(616,798)	349,902	(266,896)	

Source: Company accounts

Looking at the headline financials on a half-by-half basis shows more clearly the pattern of improving profitability as cost has been taken out of the business. Although the revenue line has come back 4%, this represents a combination of the growth of the self-service to NZ$1.6m and a more substantive drop-off in managed service revenues. This was particularly notable in Southeast Asia, where revenues were down NZ$1.1m on the prior year. Management is appraising re-establishing this business, but only if it can be done profitably.

High levels of competition in Sydney and in New Zealand have made those markets more difficult and Snakk has reconfigured its approach in both to target profitable growth.

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, hitting lows of NZ$0.04 in April and May 2018. Using the year-end cash balance of NZ$1.08m, the group has a small but positive EV, but this does not give particularly useful metrics for a peer comparison based on multiples. Quoted companies in the space are 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	1.3	1.0	0.02	58.3	N/A	N/A

Source: Bloomberg. Note: Prices as at 4 June 2018. Sales and net debt are last reported.

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