

Animoca Brands Corp. Limited

Multiple Milestones Achieved

The result exceeded expectations with significant transactions and growth across all metrics of the business.

Positives from the result were:

- An increase in distribution channels, an expanded app portfolio and strong advertising growth contributed to a pro forma 69% increase in revenue to \$7.5m (Veritas \$7.7m).
- Total new app installations increased 37% from 45m in 2014 to 61m in 2015, bringing total app installs to 174.7m in CY2015.
- Average monthly active users (MAUs) increased by 38% from 6.2m in 2014 to 8.6m in 2015, with monthly new users averaging 5.1m.
- Average revenue per user (ARPU) was \$0.12, on 61m new users.
- Diversified product offering through the partnership with Mattel to develop children's mobile games and e-books based on Mattel's globally recognised brands.
- The total app portfolio increased by 75 new games (+22%) from 336 apps in 2014 to 411 apps in CY2015, including 2 successful releases in partnership with Mattel.
- The Mattel-based game Thomas and Friends: Race On! has been downloaded ~900k times in its first month, with downloads accelerating in 2016 as the feature film was released in China.
- Strong Balance Sheet with no debt and cash of \$4.9m (2.9¢ per share), following the completion of a \$3.1m equity raise with strategic investor Ourpalm, one of the world's largest mobile gaming companies and a \$4.7m capital raise from sophisticated and institutional investors.

Forecasts

Our forecasts for CY2016 have been maintained for the app business and we held our currency conversion constant at 1.40 USD/AUD - the 23% depreciation in 2015 to 1.37 confirms our forecast. While it is difficult to forecast revenue from e-books we will await further guidance from the business following a successful launch.

Recommendation and valuation

We recommend a BUY and maintain our price target of \$0.40 per share, on a revenue multiple valuation, based on:

- Highly scalable business model – revenues from the portfolio's long tail are anticipated to cover fixed expenses in CY2016.
- Diversified product base to include e-books.
- Growth in distribution channels includes deals with Tencent and Google's featured products in the Google Play Store.
- Strong Board – Highly experienced Board boosted by the appointment of Steven Hu, Co-CEO of Ourpalm.
- Major Shareholders - Ourpalm, Intel, IDG-Accel and Forgeame.

AB1.ASX

BUY

Tuesday 8 March 2016

Price	A\$0.21
Price Target	A\$0.40
Valuation Method	Revenue Multiple
GICS sector	Technology
12 month price range	A\$0.04 - A\$0.33 per share
Average monthly t/o	0.3m
Market Capitalisation	A\$35.2m
Shares on issue	167.5m
Enterprise value	A\$30.2m
Previous rating	BUY

Year ended December 31		14A	15A	16E	17E	18E
Monthly Active Users	m	6.0	8.6	16.0	24.0	36.0
Sales revenue	A\$m	1.0	7.5	12.5	20.2	30.2
Sales revenue	U\$m	1.0	5.5	9.0	14.4	21.6
Net Revenue	A\$m	0.4	4.9	6.3	10.8	16.6
EBIT	A\$m	(1.0)	(4.0)	(1.0)	2.8	7.7
EBIT margin	%	(97.9)	(52.4)	(7.7)	14.0	25.4
NPAT	A\$m	(7.7)	(2.9)	(1.0)	2.8	6.4

EPS	¢ps	na	na	na	1.6	3.5
DPS	¢ps	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0
PE	x	na	na	na	13.5	6.0

EV/Revenue	x	25.1	4.0	2.2	1.2	0.5
EV/EBITDA	x	na	na	na	8.2	1.9
EV/EBIT	x	na	na	na	8.2	1.9
Debt/Debt + Equity	%	0.0	0.0	0.0	0.0	0.0
Enterprise Value	A\$m	25.9	30.2	27.0	23.2	14.8

Animoca Brands Corporation (AB1.ASX) v Small Industrial Index (XSI)



Activities

Develops and publishes mobile games to the global market.

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Animoca Brands Corporation Limited

Current Price: \$0.21 ps

Valuation: \$0.40 ps

Financial Performance (A\$m)

Year ended December	2014a	2015a	2016e	2017e	2018e
Sales revenue (US\$)	1.0	5.5	9.0	14.4	21.6
Sales revenue (A\$)	1.0	7.5	12.5	20.2	30.2
Cost of goods sold	(0.6)	(2.6)	(6.3)	(9.4)	(13.6)
Net Revenue	0.4	4.9	6.3	10.8	16.6
Expenses	(1.4)	(8.9)	(7.2)	(8.0)	(8.9)
EBITDA	(1.0)	(4.0)	(1.0)	2.8	7.7
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(1.0)	(4.0)	(1.0)	2.8	7.7
Net interest	0.0	0.0	0.0	0.0	0.0
Pre-Tax Profit/(Loss)	(1.0)	(3.9)	(1.0)	2.8	7.7
Tax (paid)/refund	0.0	0.0	0.0	0.0	(1.3)
Abnormals	0.0	0.0	0.0	0.0	0.0
Normalised Profit/(Loss)	(1.0)	(3.9)	(1.0)	2.8	6.4
Significant items*	(6.7)	1.0	0.0	0.0	0.0
Reported Profit/(Loss)	(7.7)	(2.9)	(1.0)	2.8	6.4

Balance Sheet (A\$m)

Year ended December	2014a	2015a	2016e	2017e	2018e
Cash	2.9	4.9	11.3	15.1	23.5
Receivables	0.0	2.4	4.0	6.4	9.6
Other assets	0.0	0.2	0.0	0.0	0.0
Total Assets	2.9	7.6	15.3	21.5	33.1
Payables	1.9	2.9	4.8	7.7	11.6
Current debt	0.0	0.0	0.0	0.0	0.0
Long term debt	3.9	0.0	0.0	0.0	0.0
Other liabilities	0.0	2.9	2.7	2.7	3.9
Total Liabilities	5.9	5.8	7.5	10.4	15.6
Shareholder Funds	(3.0)	1.8	7.8	11.1	17.6

Cash Flow Statement (A\$m)

As at December	2014a	2015a	2016e	2017e	2018e
EBITDA	(1.0)	(4.0)	(1.0)	2.8	7.7
Net interest	0.0	0.0	0.0	0.0	0.0
Income tax paid	0.0	0.0	0.0	0.0	0.0
Working capital	(0.1)	(0.3)	0.3	0.5	0.7
Operating Cash Flow	(1.2)	(4.3)	(0.6)	3.3	8.4
Capex	0.0	(0.2)	0.0	0.0	0.0
Free Cash Flow	(1.2)	(4.5)	(0.6)	3.3	8.4
Loans to related parties	0.5	(1.0)	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised	2.3	7.7	7.0	0.5	0.0
Debt (Repay)/Borrowings	1.2	0.0	0.0	0.0	0.0
Exchange rate adjustments	0.0	(0.1)	0.0	0.0	0.0
Net increase/(decrease) cash	2.9	2.1	6.4	3.8	8.4
Cash at beginning	0.0	2.9	4.9	11.3	15.1
Cash at end	2.9	4.9	11.3	15.1	23.5

Major Shareholders

Shareholder	Percentage	Director	Role
FingerFun (HK) Limited	8.83%	David Kim	Chairman
Asyla Investments Limited	8.37%	Robert Yung	Managing Director
Datahouse Investments Limited	8.37%	Yat Siu	Non-Exec Director
Intel Capital Corporation	6.53%	David Brickler	Non-Exec Director
Yong Hui Cap Holdings I Ltd	6.53%	Richard Kuo	Non-Exec Director
Renderson LTD	3.00%	Martin Green	Non-Exec Director
Top 20 (31/12/2015)	68.15%	Steven Hu	Non-Exec Director

Valuation Metrics

Valuation Metric	Premium/(Discount)
Price	\$0.21 ps (93%)
Target Price	\$0.40 ps
Market Capitalisation	\$35.2m
Implied 2016 Revenue multiple	5.4x
Implied 2017 Revenue multiple	3.4x

Growth Ratios (%)

Year ended December	2014a	2015a	2016e	2017e	2018e
Sales revenue	na	630	66.3	60.7	50.0
COGS	na	310	140.9	49.5	45.2
Gross profit	na	1,137	27.0	72.0	54.2
Expenses	na	530.0	(18.6)	9.9	12.4
EBITDA	na	na	na	na	171.9
Normalised profit	na	na	na	na	126.4

Operating Performance Ratios (%)

Year ended December	2014a	2015a	2016e	2017e	2018e
Net revenue	38.6	65.5	50.0	53.5	55.0
EBITDA/Sales revenue	na	na	na	14.0	25.4
NPBT/Sales revenue	na	na	na	14.1	25.5
Effective tax rate	0.0	0.0	0.0	0.0	16.5

Balance Sheet Ratios

Year ended December	2014a	2015a	2016e	2017e	2018e
Receivables turn (x)	25.5	6.2	3.9	3.9	3.8
Net debt (\$m)	1.1	0.0	0.0	0.0	0.0
Debt/(Debt + Equity) (%)	0.0	0.0	0.0	0.0	0.0
Current Assets/Current Liabilities (x)	1.5	1.3	3.2	2.8	2.9
Net assets (eps)	(2.5)	1.1	4.3	6.1	9.6
Net tangible assets (eps)	(2.5)	1.1	4.3	6.1	9.6
Cash (eps)	0.0	2.9	6.2	8.3	12.9
Price to book value (x)	(8.4)	19.9	4.9	3.4	2.2

Multiples (x)

Year ended December	2014a	2015a	2016e	2017e	2018e
PE Ratio	na	na	na	13.5	6.0
Enterprise value/Revenue	25.1	4.0	2.2	1.2	0.5
Enterprise value/EBITDA	na	na	na	8.2	1.9
Enterprise value/NPAT	na	na	na	8.2	2.3
Cash flow ratio	na	na	na	11.5	4.6

Per Share Data

Year ended December	2014a	2015a	2016e	2017e	2018e
Issued shares - weighted average (m)	77.0	118.3	167.5	182.5	182.5
EPS (eps)	na	na	na	1.6	3.5
EPS - adjusted (eps)	na	na	na	1.6	3.5
Operating cash flow (eps)	na	na	na	1.8	4.6
Free cash flow (eps)	na	na	na	1.8	4.6
DPS (eps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

User Base

Year ended December	2014a	2015a	2016e	2017e	2018e
Monthly Active Users	6.3	8.6	16.0	24.0	36.0
Monthly Active Users - forecast	6.3	10.8	16.0	24.0	36.0

* Significant Items - Tranche 2 Performance shares treated as a non-cash item on the P&L to account for the Balance Sheet entry

December Financial Year 2015 Results

The result was in line with guidance.

Figure 1: CY2015 financial results summary

Profit and Loss Statement				Balance Sheet			
Year ended December (A \$ m)	2014	2015		As at December (A \$ m)	2014	2015	
Sales Revenue	1.0	7.5	630%	Current Assets	2.9	7.6	
Cost of goods sold	(0.6)	(2.6)		Non Current Assets	0.0	0.0	
Gross Profit / Loss	0.4	4.9		Total Assets	2.9	7.6	163%
Expenses	(1.4)	(8.9)	530%	Current Liabilities	2.0	5.8	
EBITDA	(1.0)	(4.0)	291%	Non Current Liabilities	3.9	0.0	
Depreciation & Amortisation	0.0	0.0		Total Liabilities	5.9	5.8	
EBIT	(1.0)	(4.0)	291%	Shareholder Funds	(3.0)	1.8	
Net interest	0.0	0.0		Net Debt (\$ m)	1.1	0.0	-100%
Pre-tax Profit/(Loss)	(1.0)	(3.9)	290%	Debt/Debt + Equity (%)	0.0	0.0	
Tax	0.0	0.0		Net Debt/EBITDA (x)	(1.1)	0.0	
Minorities	0.0	0.0		EV/Revenue (x)	25.1	4.0	
Normalised Profit/(Loss)	(1.0)	(3.9)	290%	Current ratio (x)	1.5	1.3	
Significant items	(6.7)	1.0		Cash Flow (A \$ m)	2014	2015	
Reported Profit/(Loss)	(7.7)	(2.9)	-62%	Operating Cash Flow	(1.2)	(4.3)	267%
AUD/USD exchange rate	1.1	1.4	23%	Capex	0.0	(0.2)	
Gross margin (%)	38.6	65.5	69%	Acquisitions/Related Loans	0.5	(1.0)	
EBIT margins (%)	(97.9)	(52.4)		Equity	2.3	7.7	
Effective tax rate (%)	0.0	0.0		Debt	1.2	0.0	
EPS (eps)	(1.3)	(3.3)		Dividends	0.0	0.0	
Cash per share	0.0	2.9		Exchange rate	0.0	(0.1)	
DPS (eps)	0.0	0.0		Net Cash Flow	2.9	2.1	

Source: Company data

Revenue – Total revenue increased 630% from \$1m in CY2014 to \$7.5m (Veritas \$7.7m) in CY2015, on a pro forma basis revenue increased 69% from \$4.5m to \$7.5m, split by \$3.1m in 1H CY2015 and \$4.4m in 2H CY2015. The revenue mix changed with the increasing scale in the user base, with:

- App advertising exceeded expectations increasing 97% from \$0.9m to \$1.7m, contributing 23% of total revenues and translating to \$0.30 per new user.
- In App purchases contributed 51% of revenue at \$3.8m representing \$0.80 per new user.
- Service revenue of \$2m represents development and marketing fees paid by partners in conjunction for certain apps.
- ARPU of \$0.12 per new user reflects total new users of 61m.
- The US dollar appreciated against the Australian dollar by 23% from 1.10 to 1.37 (Veritas 1.40) providing a boost to revenue.

COGS – Includes transaction costs (\$1.1m), advertising cost of sales (\$473k), royalties/revenue share (\$709k), hosting costs (\$246k) and other (\$29k).

Expenses – \$8.9m for the full year and well controlled with:

- Marketing costs of \$3.6m were 48% of revenue and translated to \$2 in revenue from every \$1 spent in marketing in CY2015. The types of marketing included social media, mobile app advertising networks, on-ground events, television and web ads. Marketing as a proportion of revenue is expected to significantly decline with an increase in operating leverage in CY2016.
- An increase in occupancy costs from \$80k (5 month’s occupancy and the desk fee was waived) to \$561k includes the rental of the office furniture and equipment, IT support, cleaning and other shared services in the office.
- R&D expenses totalled \$2.3m split by \$0.8m in 1H CY2015 and \$1.5m in 2H CY2015 from which we expect to see monetisation benefits in FY16.

Significant Items – Represents non cash fair value gain on performance shares.

Cash Flow – Operating cash flow was -\$4.3m and included \$5.5m in cash receipts (72% cash conversion to revenue of \$7.5m) and \$9.7m in payments to suppliers and employees. Net cash flow of \$2.1m was a combination of an equity capital raise (\$4.7m at \$0.14 per share) and strategic investor funding (\$3.1m at \$0.21 per share at 11.11%); mainly offset by repayment of a \$1m loan from Outblaze and Totally Apps.

Balance Sheet – Net cash of \$2.1m increased cash at bank to \$4.9m with trade receivables of \$2.4m increasing total assets by 163% to \$7.6m. Current liabilities were \$5.8m mainly from the increase of \$2.9m (previously in non-current liabilities) related to the accounting treatment of the performance shares due for expiry at 30 June 2016.

Valuation

We have maintained our 12 month price target of \$0.40 per share based on all our forecasts being achieved. While we are of the opinion the e-book opportunity is significant, it is difficult to forecast at this stage and we will wait for guidance closer to initial Mattel based product releases.

Figure 2: Revenue multiple valuation

Revenue Multiple Valuation	AUD/USD	Revenue	Multiple		
		CY2016	x	A\$m	ps
Revenue	\$0.72	A\$12.5m	5.4	67.7	\$0.40
Options - In the money				0.0	\$0.00
Valuation				67.7	\$0.40

Source: Veritas estimates, Company data

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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