

# Animoca Brands Corp. Limited

## Signs Ourpalm Agreement, Release of Paris Hilton Game and Q2 Quarterly Update

Animoca Brands and Ourpalm sign a share subscription agreement in relation to the A\$3.1m strategic investment as announced on 6 July 2015. The cash investment is now unconditional and is expected to be received by AB1 before the end of August 2015.

- The investment represents an 11.11% (14,785,714 shares) of AB1's expanded share capital at a purchase price of \$0.21 per share representing a premium of 23.5% over the closing price on 24 June 2015.
- Ourpalm has the option to further invest US\$5m when the share price over a five day period reaches A\$0.315 per share.
- The subscription has been voluntarily escrowed and Co-CEO of Ourpalm, Mr. Steven Hu to be appointed as a Non-Executive Director.

### Both Parties to Benefit from Strategic Partnership

AB1's experienced management team has developed a strong corporate reputation which is a key factor in securing major co-development partnerships with global entertainment brands.

- This is a core competitive advantage in the global mobile gaming market and is unique considering AB1's market cap of A\$26.6m.
- Strategic partnership with AB1 allows Ourpalm, a leading Chinese publisher, to leverage AB1's global brand partnerships to introduce global branded games into the Chinese market.

### First to Market Paris Hilton Content Released

The first ever collection of Paris Hilton branded merchandise has been released inside Star Girl mobile game. The Star Girl series of games are popular, with over 65m downloads to date.

### Reasons to BUY

AB1 has a clean balance sheet and a clear strategy for 2H CY2015.

- Cash at bank is A\$3.2m post strategic investment. Overheads are expected to remain constant.
- Paris Hilton game launched inside the existing Star Girl game that has been downloaded over 65m times.
- Targeted marketing campaigns will accompany the launch of the Paris Hilton and Mattel branded games.
- Mattel branded games anticipated for release from Q4 2015.
- Major Shareholders – Intel Capital, IDG-Accel and Forgame.

AB1.ASX

BUY

Wednesday 12 August 2015

Price	A\$0.20
Price Target	A\$0.40
Valuation Method	Revenue Multiple

GICS sector	Technology
12 mth price range	A\$0.04 - A\$0.33ps
Avg monthly t/o	0.6m
Market Cap	A\$26.6m
Shares on issue - weighted average	133.1m
Enterprise value	A\$21.2m
Previous rating	Initiating Coverage

Year ended December 31		14A	15E	16E	17E	18E
<b>Monthly Active Users</b>	<b>m</b>	<b>6</b>	<b>11</b>	<b>16</b>	<b>24</b>	<b>36</b>
Sales revenue	US\$m	0.9	6.0	9.0	14.4	21.6
<b>Net Revenue</b>	<b>US\$m</b>	<b>0.4</b>	<b>2.6</b>	<b>4.5</b>	<b>7.7</b>	<b>12.0</b>
EBIT	US\$m	-6.4	-2.0	-0.6	2.1	6.1
EBIT margin	%	-707	-32.6	-6.4	14.3	28.2
<b>NPAT</b>	<b>US\$m</b>	<b>-6.4</b>	<b>-3.8</b>	<b>0.8</b>	<b>2.1</b>	<b>5.1</b>
EPS	¢ps	-5.4	-3.2	0.6	1.4	3.4
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	-3.7	-6.3	32.2	14.1	5.8
EV / EBITDA	x	-3.9	-10.8	-41.0	10.4	2.5
EV / EBIT	x	-3.9	-10.8	-41.0	10.4	2.5
Debt / Debt + Equity	%	0.0	0.0	0.0	0.0	0.0
Price / Cash Flow	x	-4.9	-23.5	-154	11.9	4.5
ROA	%	-536	-41.7	-8.4	27.2	51.3
ROE	%	522	1347	36.1	55.9	69.3

All figures in US\$ unless stated otherwise.

AB1 v Small Industrial Index (XSI)



Source: IRESS

#### Activities

Develops and publishes mobile games to the global market.

[www.animocabrands.com](http://www.animocabrands.com)

Levi Hawker

+61 (0) 3 8676 0689

[lhawker@veritassecurities.com.au](mailto:lhawker@veritassecurities.com.au)

## Q2 CY2015 Quarterly Update

AB1 continues its strong growth in core financial and operational metrics.

### AB1 generated record revenues in Q2

- Record revenues of \$1.3m for Q2 CY2015 compared to \$1.1m in Q1 CY2015.
- Doraemon Gadget Rush was the best performing game, followed by Superstar Fashion Girl and Garfield's Pet Hospital. All three games were amongst the top-5 revenue in every month during Q2.
- June was Garfield's birthday month. Garfield games were featured by Google and in June four of the top 10 games were Garfield titles.
- Cash at bank at 30 June of \$167,000, excludes cash from proposed A\$3.1m investment by Ourpalm Co. Ltd.

### Total user base at 141m downloads

- MAU's of 6.4m (+4.1% yoy) and 3.7m (+2.5% yoy), average monthly new users acquired in Q2. Total user base at 141m downloads.

### Signed a major agreement with Mattel

- Entered into a significant agreement with Mattel, Inc. (NASDAQ:MAT) to jointly invest in the development of mobile and tablet games and jointly market and promote the titles for global distribution based on Mattel's portfolio of current and future brands.
- Successfully released 27 games bringing the total library to 385 games.

### AB1 and AID Partners Launch Paris Hilton Collection within "Star Girl" Game

AB1 adds Paris Hilton branded merchandise inside Star Girl mobile game. The total cost for Paris Hilton items are US\$4.99. Star Girl is highly successful fashion role playing game that has been downloaded over 65m times.

### First to market Paris Hilton collection of virtual items

- The "Paris Hilton Collection Vol. 1" consists of five dresses, a pair of sunglasses, and a fishnet stockings and heels combo. The items are inspired by fashion choices of Ms Hilton.
- A virtual version of Ms Hilton's Paris Beach Club, which opened in 2014 in Paranaque City, the Philippines. The virtual club will be the setting for fashion contests.
- Star Girl earns revenue from advertising and in-app purchases, and is free to download globally from Google Play, the iTunes App Store and the Amazon Appstore.
- Star Girl is being promoted using physical advertising, online advertising and social media campaigns, including a promotional Twitter "flock and unlock" campaign that will gift about US\$10 of premium in-game currency to users when the targeted number of tweets is reached.
- The Star Girl mobile game is majority owned by AID Partners Capital Holdings, a leading Hong Kong independent asset management company.

**Evidence of shift in advertising to mobile from major brands**

AB1's advertising division provides significant revenue opportunities, with:

**AB1 global customer base is equivalent to the 9<sup>th</sup> largest global population**

- AB1 has over 141m customer downloads, the equivalent of the ninth largest global population behind Russia, and growing at 3.7m (+2.5%) downloads per month. The mobile global customer bases are significant compared to traditional advertising mediums, with Facebook's DAU's for the last quarter at 968m users. This is equivalent to the third highest population in the world behind China and India's population.
- Creating a global database of users that transforms AB1 from a net buyer of advertising to a net seller of advertising to major brands is a game changer.
- Global advertising shift of large brands to mobile away from traditional advertising mediums such as print and outdoor.
- The cost per installation (CPI) to AB1 is ~US\$0.04, which includes marketing and installation costs, this compares to the industry CPI of >US\$1.00. The organic customer growth and licensing model provide a key competitive advantage that will sustain the current CPI around these levels. This compares to Facebook's CPI for developers of US\$4.10.
- Facebook generated US\$3.45 in mobile advertising revenue per daily active user (DAU) last quarter, up from US\$2.63 a year ago, this compares to the AB1's advertising revenue of US\$1.02 per user.
- The average revenue per user (ARPU) is ~US\$0.12 per new user and provides a gross margin of ~US\$0.06 per new user.

**CPI is ~US\$0.04 per MAU materially below industry average of >US\$1.00 per MAU**

**AB1 ARPU of ~US\$0.12 per new user  
Gross margin of ~US\$0.06 per new user**

Facebook's quarterly earnings call on 29/07/2015 provided evidence that global advertising spend from deep pocketed big brands is beginning to shift to mobile. Facebook's quarterly revenue reflected how larger companies are spending more to capture an audience that spends a large chunk of time on mobile.

Advertisers are spending more on Facebook because it allows them to target users narrowly, such as people who have been engaged in the last six months or people who download gaming apps.

Why brands are shifting TV and Print budgets to mobile:

**Engagement is more efficient on mobile**

- Advertiser engagement to customers is more efficient in targeting the right audience and generating brand awareness at scale. Unlike TV advertising, mobile consumers can engage more deeply with a mobile advertisement with the tap of a finger and then on a landing page and the constant availability from always having the device close at hand, and the ability to reach out to consumers through push notifications.
- Micro targeting can be deep with vast amounts of big data available to target audiences in an intelligent way that delivers return on investment. Big data creates the opportunity to target the right audience by using the consumer's history, interests, app engagement and location data (city). Well-targeted ads have much higher response rates and are seen as much less intrusive by consumers.

**Target audiences in an intelligent way that delivers ROI**

**Mobile is driving innovation in advertising**

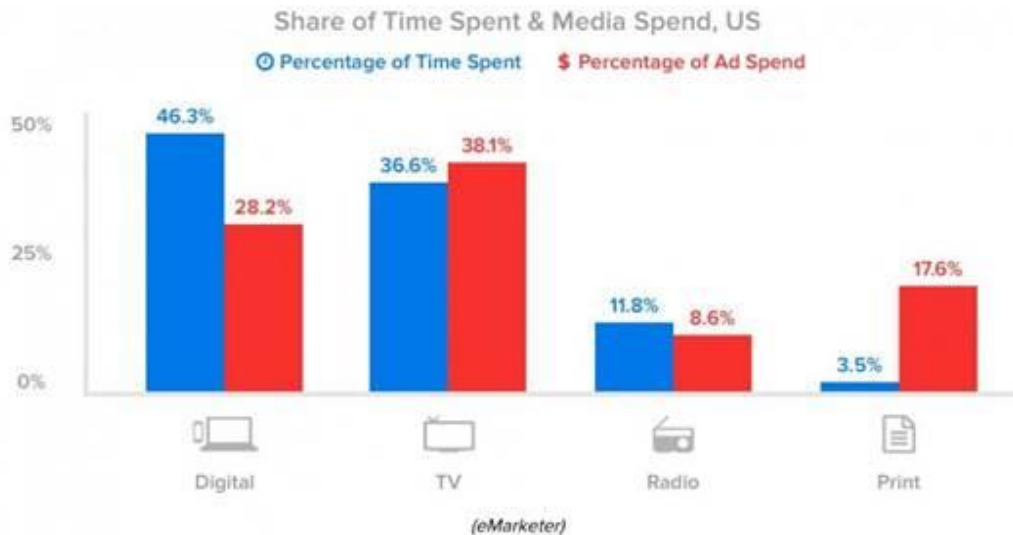
- Increased focus on business outcomes by targeting and measuring the success of advertising compared to traditional platforms. Mobile ads are generally performance-driven. They're measured in "cost per install" or "cost per action" for the most part so they are more effective than traditional advertising, with advertisers only paying for results.
- Innovating advertisements with new ad tools and formats for marketers, such as video. The innovation of video advertisements on the smartphone screen has driven the dramatic increase in mobile ad dollars due to its effectiveness with consumers.
- Mobile platform lowers the barriers of all formats of advertising for businesses to have a web presence and gives them the chance to make advertisements at an affordable cost targeting the right audience, where as they may never advertise with television due to no measurable metrics of performance of the marketing campaign.

**Mobile lowers the barriers for advertising to small enterprise**

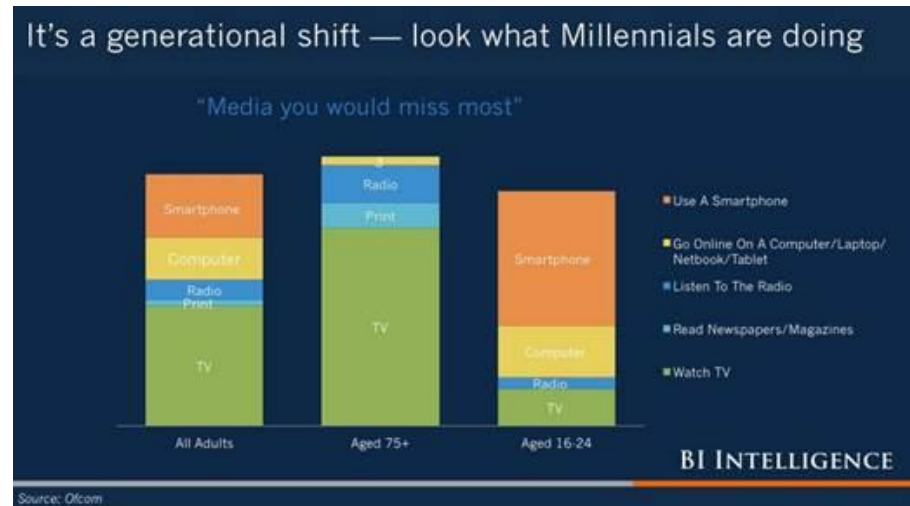
The lack of consolidation in mobile vs. web (Google) also means that advertisers have a wider array of choice in the current market environment.

In 2014, big brands still allocated the majority of their advertising spend to TV, a medium that was second to digital for time spent. The increased spending on mobile is expected to come as advertisers shift budgets from television and print to online.

Share of time spent & media spend in US 2014



The move away from traditional mediums is a generational shift.



## Outlook

AB1's portfolio strategy focuses on producing a high number of games that yields a higher frequency of hit titles with long lifetime value.

- The license agreement with Mattel was a significant milestone. Further licensing and distribution agreements with leading global brands are anticipated.
- 15 of AB1's games to be included in the newly launched Google Play store 'Designed for Families'.
- Focused strategy to increase the percentage of revenues earned from advertising.
- A growing market presence in the rapidly expanding Chinese market.
- The expansion in strategy to branded goods into an existing game instead of making a new game.

AB1 games to be promoted by google Play Store

Sales

Robert Scappatura +61 2 8252 3240  
 Andrew McCauley +61 2 8252 3260  
 Bryce Reynolds +61 2 8252 3215  
 Pat Ford +61 2 8252 3211  
 Clay Melbourn +61 2 8252 3220

Research

Resources  
 Piers Reynolds +61 3 8601 1196  
 Industrials  
 Brent Mitchell +61 3 8605 4830  
 Levi Hawker +61 3 8676 0689

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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Veritas Securities Limited  
 A.B.N. 94 117 124 535  
 AFSL No. 297 043  
 GPO Box 4877, Sydney, NSW, 2001  
 www.veritassecurities.com.au

Sydney  
 Level 4, 175 Macquarie Street  
 Sydney, NSW, 2000  
 Tel: (02) 8252 3200  
 Fax: (02) 8252 3299

Melbourne  
 Level 8, 350 Collins Street  
 Melbourne, VIC, 3000  
 Tel: (03) 8601 1196  
 Fax: (03) 8601 1180