

# Animoca Brands Corp. Limited

## Acquires Finnish Game Developer TicBits

AB1 has announced the acquisition of TicBits, a Finnish game developer for a total consideration of A\$6.5m (Enterprise value A\$4.8m), comprising cash of A\$3.5m, an equity or cash consideration in 2018 of A\$1.5m and potential earn outs of up to A\$0.75m, with an additional annual bonus of A\$0.75m for each year NPAT >A\$4.4m.

TicBits is an independent European game development studio with 9 employees. It has a portfolio approach and has developed a number of highly successful casual games with a focus on long tail games. TicBits has a strong track record, with:

- NPAT growth of 134% to ~A\$800k on revenue growth of 53% to A\$1.5m.
- A portfolio of 13 games published predominantly on the iOS platform.
- A strong user base with over 750,000 monthly active users.

### TicBits to deliver an increased contribution in CY17

In CY17 TicBits is expected to report NPAT of A\$0.72m on revenue of A\$1.5m. We expect an uplift in revenues from TicBits' library of games predominantly from the launch onto the android platform, introduction of AB1 licensed portfolio of brands utilising existing TicBits formats, cross-promotion of AB1 and TicBits users and access to TicBits' deep talent pool.

### TicBits is a Strong Strategic Fit

The acquisition is expected to be earnings accretive:

- Highly complementary products and IP enhancing AB1's existing suite of games and licensed products.
- Strong opportunities to leverage TicBits apps and game engines with AB1's IP portfolio and distribution.
- Diversifies AB1's operations geographically, tapping Nordic mobile engineering talent at competitive rates in Turku, Finland.
- TicBits games have strong recurring revenue due to their large, loyal user bases and popular formats.
- There are significant synergies that include substantial cross promotion opportunities with both user bases.

### Recommendation and valuation

We maintain a BUY and have increased our price target to \$0.43 per share (previously \$0.40 ps.), based on a revenue multiple of 6.5x. AB1 looks attractive due to:

- Highly scalable business model – revenues from the portfolio's long tail are anticipated to cover fixed expenses in CY2017.
- Diversified product base to include e-books in 3Q CY2016.
- Growth in distribution channels includes deals with Xiaomi and Tencent.

AB1.ASX

BUY

Thursday 7 July 2016

Price	\$0.21
Price Target	\$0.43
Valuation Method	Revenue Multiple
GICS sector	Technology
12 month price range	\$0.12 - \$0.27 per share
Average monthly t/o	0.3m
Market Capitalisation	A\$42.0m
Shares on issue	200.0m
Enterprise value	A\$33.9m
Previous rating	BUY

Year ended Dec 31		14A	15A	16E	17E	18E
<b>Sales revenue</b>	A\$m	<b>1.0</b>	<b>7.5</b>	<b>13.3</b>	<b>21.4</b>	<b>33.2</b>
<b>Net Revenue</b>	A\$m	<b>0.4</b>	<b>4.9</b>	<b>8.6</b>	<b>13.2</b>	<b>18.8</b>
EBIT	A\$m	(1.0)	(4.0)	(0.7)	3.3	7.6
EBIT margin	%	(97.9)	(52.4)	(4.9)	15.5	23.0
<b>NPAT</b>	A\$m	<b>(7.7)</b>	<b>(2.9)</b>	<b>(0.6)</b>	<b>3.3</b>	<b>6.4</b>

EPS	¢ps	na	na	na	1.7	3.2
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	12.7	6.6

<b>EV/Revenue</b>	x	<b>25.1</b>	<b>4.0</b>	<b>2.8</b>	<b>1.6</b>	<b>0.9</b>
EV/EBITDA	x	na	na	na	10.3	3.9
EV/EBIT	x	na	na	na	10.3	3.9
Debt/Debt + Equity	%	0.0	0.0	0.0	0.0	0.0
Enterprise Value	A\$m	25.9	30.2	36.8	33.9	29.7

ARPU	A\$	0.0	0.12	0.13	0.14	0.15
Monthly Active Users	m	6.3	10.8	16.0	21.5	30.6
Ebook subscription	A\$	0.0	0.0	121.5	121.5	121.5
Ebook users	000	0.0	0.0	24,000	81,000	108,000

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



### 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)



## Animoca Brands Corporation Limited

Current Price: \$0.21 ps

Valuation: \$0.43 ps

### Financial Performance (A\$m)

Year ended December	2014a	2015a	2016e	2017e	2018e
<b>Sales revenue (A\$)</b>	<b>1.0</b>	<b>7.5</b>	<b>13.3</b>	<b>21.4</b>	<b>33.2</b>
Cost of goods sold	(0.6)	(2.6)	(4.6)	(8.1)	(14.4)
<b>Net Revenue</b>	<b>0.4</b>	<b>4.9</b>	<b>8.6</b>	<b>13.2</b>	<b>18.8</b>
Expenses	(1.4)	(8.9)	(9.3)	(9.9)	(11.1)
<b>EBITDA</b>	<b>(1.0)</b>	<b>(4.0)</b>	<b>(0.7)</b>	<b>3.3</b>	<b>7.6</b>
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(1.0)	(4.0)	(0.7)	3.3	7.6
Net interest	0.0	0.0	0.0	0.0	0.0
<b>Pre-Tax Profit/(Loss)</b>	<b>(1.0)</b>	<b>(3.9)</b>	<b>(0.6)</b>	<b>3.3</b>	<b>7.7</b>
Tax (paid)/refund	0.0	0.0	0.0	0.0	(1.3)
Abnormals	0.0	0.0	0.0	0.0	0.0
<b>Normalised Profit/(Loss)</b>	<b>(1.0)</b>	<b>(3.9)</b>	<b>(0.6)</b>	<b>3.3</b>	<b>6.4</b>
Significant items*	(6.7)	1.0	0.0	0.0	0.0
<b>Reported Profit/(Loss)</b>	<b>(7.7)</b>	<b>(2.9)</b>	<b>(0.6)</b>	<b>3.3</b>	<b>6.4</b>

### Balance Sheet (A\$m)

Year ended December	2014a	2015a	2016e	2017e	2018e
<b>Cash</b>	<b>2.9</b>	<b>4.9</b>	<b>5.2</b>	<b>8.1</b>	<b>12.3</b>
Receivables	0.0	2.4	2.8	4.5	7.0
Intangibles	0.0	0.0	3.5	3.5	3.5
Other assets	0.0	0.2	0.3	0.5	0.2
<b>Total Assets</b>	<b>2.9</b>	<b>7.6</b>	<b>11.8</b>	<b>16.6</b>	<b>23.0</b>
Payables	1.9	2.9	2.0	3.2	5.0
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	1.6	1.4	(0.4)
<b>Total Liabilities</b>	<b>5.9</b>	<b>5.8</b>	<b>3.6</b>	<b>4.6</b>	<b>4.6</b>
Shareholder Funds	(3.0)	1.8	8.2	12.0	18.4

### Cash Flow Statement (A\$m)

As at December	2014a	2015a	2016e	2017e	2018e
EBITDA	(1.0)	(4.0)	(0.7)	3.3	7.6
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)	(1.3)	0.3	(0.7)
<b>Operating Cash Flow</b>	<b>(1.2)</b>	<b>(4.3)</b>	<b>(1.9)</b>	<b>3.6</b>	<b>6.9</b>
Capex	0.0	(0.2)	(1.0)	(1.0)	(1.0)
<b>Free Cash Flow</b>	<b>(1.2)</b>	<b>(4.5)</b>	<b>(2.9)</b>	<b>2.6</b>	<b>6.0</b>
Loans to related parties	0.5	(1.0)	0.0	0.0	0.0
Acquisitions	0.0	0.0	(3.7)	(0.2)	(1.7)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised	2.3	7.7	7.1	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
<b>Net increase/(decrease) cash</b>	<b>2.9</b>	<b>2.1</b>	<b>0.4</b>	<b>2.9</b>	<b>4.2</b>
Cash at beginning	0.0	2.9	4.9	5.2	8.1
Cash at end	2.9	4.9	5.3	8.1	12.3

### Major Shareholders

		Directors		
FingerFun (HK) Limited	7.4%	David Kim		Chairman
Asyla Investments Limited	7.0%	Robert Yung		Managing Director
Datahouse Investments Limited	7.0%	Yat Siu		Non-Exec Director
Intel Capital Corporation	5.5%	David Brickler		Non-Exec Director
Yong Hui Cap Holdings I Ltd	5.5%	Richard Kuo		Non-Exec Director
Startive Ventures, Inc	5.5%	Martin Green		Non-Exec Director
Top 20 (31/12/2015)	57.1%	Steven Hu		Non-Exec Director

### Valuation Metrics

	Premium/(Discount)
Price	\$0.21 ps (105%)
Target Price	\$0.43 ps
Market Capitalisation	\$42.0m
Implied 2016 Revenue multiple	6.5x
Implied 2017 Revenue multiple	4.0x

### User Metrics

Year ended December	2014a	2015a	2016e	2017e	2018e
Monthly Active Users (m)	6.3	10.8	16.0	21.5	30.6
Ebook users (000)			24,000	81,000	108,000

### Growth Ratios (%)

Year ended December	2014a	2015a	2016e	2017e	2018e
Sales revenue	na	630	76.1	60.8	55.4
COGS	na	310	78.5	74.5	77.9
Gross profit	na	1,137	74.8	53.3	41.7
Expenses	na	530.0	4.4	6.9	11.9
EBITDA	na	na	na	na	130.9
Normalised profit	na	na	na	na	92.4

### Operating Performance Ratios (%)

Year ended December	2014a	2015a	2016e	2017e	2018e
Net revenue	38.6	65.5	65.0	62.0	56.5
EBITDA/Sales revenue	na	na	na	15.5	23.0
NPBT/Sales revenue	na	na	na	15.5	23.0
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	5.1	5.8	5.8
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	4.1	4.1	3.9
Net assets (eps)	(2.5)	1.1	4.1	6.0	9.2
Net tangible assets (eps)	(2.5)	1.1	2.3	4.2	7.4
Cash (eps)	0.0	2.9	2.6	4.0	6.1
Price to book value (x)	(8.4)	19.9	5.1	3.5	2.3

### Multiples (x)

Year ended December	2014a	2015a	2016e	2017e	2018e
<b>PE Ratio</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>12.7</b>	<b>6.6</b>
<b>Enterprise value/Revenue</b>	<b>25.1</b>	<b>4.0</b>	<b>2.8</b>	<b>1.6</b>	<b>0.9</b>
Enterprise value/EBITDA	na	na	na	10.3	3.9
Enterprise value/NPAT	na	na	na	10.2	4.7
Cash flow ratio	na	na	na	11.6	6.1

### Per Share Data

Year ended December	2014a	2015a	2016e	2017e	2018e
Issued shares - weighted average (m)	77.0	118.3	167.5	200.0	200.0
EPS (eps)	na	na	na	1.7	3.2
EPS - adjusted (eps)	na	na	na	1.7	3.2
Operating cash flow (eps)	na	na	na	1.8	3.5
Free cash flow (eps)	na	na	na	1.3	3.0
DPS (eps)	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

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

## Acquisition of TicBits

AB1 has announced the acquisition of TicBits, a Finnish mobile game developer for a total consideration of A\$6.5m (Enterprise value of A\$4.8m) as shown in figure 1 below:

**Figure 1: TicBits acquisition**

TicBits Acquisition Cost	Proforma Value A\$m	Enterprise Value A\$m
Cash <sup>1</sup>	3.5	1.8
Cash or Equity	1.5	1.5
<b>On Settlement</b>	<b>5.0</b>	<b>3.3</b>
Defered Payments	0.8	0.8
Annual bonuses <sup>2</sup>	0.7	0.7
<b>Total Payments<sup>3</sup></b>	<b>6.5</b>	<b>4.8</b>














Source: Company data

1. The EUR to AUD exchange rate is held constant at 1.48 as per the announcement.
2. The Enterprise value is adjusted for the A\$1.8m cash TicBits has on the Balance Sheet. The final acquisition cost will be adjusted for the share price based on the considered payment of the A\$1.5m payable at the end of 2018 and potential earn-out payments that can either be paid in cash or shares.
3. The earn-out and bonus shares can be paid in cash or shares (at the discretion of TicBits) over a three year period from 1/1/2016. The earn outs are up to A\$0.75m if cumulative net revenue is €2.1m, with an additional €0.5m annual bonuses for each year NPAT is >€3m.

### TicBits Ltd.

TicBits is an independent game developer based in Turku, Finland. It has a global monthly active user network of 750,000 and over 11m total downloads across a highly successful library of 13 casual games, as shown in figure 2 below:

**Figure 2: TicBits highly successful mobile game library**

 <b>Crazy Kings</b> Tower Defense Supercharged!	 <b>Toon Match</b> A casual game for players of all ages	 <b>Word Strike</b> A fast paced word association game
 <b>Unblock :)</b> An exciting brain teasing game	 <b>Jewel Words</b> Create words to find and solve riddles	 <b>Cruel Jewels</b> A game of jewel-busting action!
 <b>Solitaire Gold</b> A perfect Solitaire with a captivating quest	 <b>FreeCell :)</b> The game of FreeCell perfected for touchscreens	 <b>Mahjong :)</b> The best Mahjong the App Store has to offer
 <b>Solitaire :)</b> A familiar card game designed for touchscreens	 <b>Minesweeper!</b> Minesweeper, just the way you're used to playing it!	 <b>Sudoku :)</b> The most user-friendly Sudoku game in the App Store
 <b>iAssociate 2</b> An award-winning word association game		

Source: Company data

TicBits provides a deep mobile engineering talent base of 9 developers. This includes the seasoned founding developers:

- **Fredrik Wahrman (CEO and Co-Founder)** - Lead game developer and founding member at SilverBirch Studios in Toronto, Canada. He spearheaded key launches like the Legend of Zorro, under license from Warner Brothers.
- **Niklas Wahrman (CTO and Co-Founder)** – Lead programmer at SilverBirch Studios in Toronto, Canada. He led the development of the games Constantine and Clark & Superman, under license from Warner Brothers.

**Figure 3: TicBits mobile software engineers**



Source: Company data

## Forecasts

We now expect FY16 EBITDA for AB1 of -\$0.7m on Revenue of \$13.3m (+6%), based on the following assumptions:

- A contribution of A\$0.75m (+6%) for TicBits and an initial EBITDA contribution of \$0.36m (+6%).
- A significant reduction in the Pre-Tax Loss from A\$1.0m to A\$0.6m, a 36% decrease.
- Cash post acquisition of \$5.2m, this includes a A\$3.5m cash payment offset by the acquired Balance Sheet with cash of A\$1.8m.
- An increase in monthly active users to 16.8m (+5%) for FY16.

**Figure 4: Adjusted financial forecasts post acquisition**

		AB1	TicBits	AB1		AB1	TicBits	AB1	
		Forecasts	Contribution	Adjusted	Change	Forecasts	Contribution	Adjusted	Change
		CY16	CY16	CY16	%	CY17	CY17	CY17	%
Total Revenue	A\$m	12.53	0.75	<b>13.28</b>	6%	19.90	1.50	<b>21.40</b>	8%
Net Revenue	A\$m	8.15	0.49	<b>8.63</b>	6%	12.25	0.97	<b>13.22</b>	8%
NPAT	A\$m	(1.00)	0.36	<b>(0.64)</b>	-36%	2.60	0.72	<b>3.32</b>	28%
MAUs		16.0	0.8	<b>16.8</b>	5%	21.5	0.8	<b>22.2</b>	3%

Source: Company data, Veritas estimates

## Valuation

We have increased our 12-month price target from A\$0.40 per share to \$0.43 per share, while maintaining our A\$ revenue multiple of 6.5x. This implies AB1 would be trading on a 4x CY2017 revenue multiple compared to the current CY2017 revenue multiple of 1.6x.

Our valuation of A\$86.1m (A\$0.43 ps) is based on a CY2017 revenue multiple of 6.5x. This compares to the domestic industry average of 35.3x (see figure 6).

**Figure 5: Revenue multiple valuation and price target**

Revenue Multiple Valuation	Revenue CY2017 Multiple			
	A\$m	x	A\$m	ps
Revenue	A\$13.2m	6.5	86.1	\$0.43
Options - In the money			0.0	\$0.00
<b>Valuation</b>			<b>86.1</b>	<b>\$0.43</b>

Source: Veritas estimates, Company data

AB1 compares favorably to similar ASX listed technology companies.

**Figure 6: Comparative ASX technology companies**

Company	Users	Market Cap	Net Revenue CY2017	Revenue Multiple
	m	A\$	A\$	x
<b>Animoca Brands Corp.</b>	<b>201.0</b>	<b>42.0</b>	<b>13.2</b>	<b>3.2</b>
<b>Industry Average</b>		<b>242.9</b>	<b>13.6</b>	<b>35.3</b>
Freelancer	18.7	734.3	38.6	19.0
Migme	39.0	135.0	12.2	11.1
Latam Autos Ltd	-	80.6	3.4	24.0
Rent.com.au	-	21.8	0.3	87.2
ResApp Health	-	188.0	0.0	-

Source: Factset

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