



Mobile Embrace (MBE)

Outperform

Punching out another acquisition & record Q1 result

\$0.22

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Our View

MBE's recent acquisition of UK-based performance marketing business, Marketing Punch, and Q1 earnings update lifts our FY16 and FY17 EBITDA estimates by 12% (\$10.6m) and 14% (\$16.7m) respectively. The acquisition was conservatively priced at 2.2x EBITDA and is funded by a new CBA debt facility, meaning the transaction is highly EPS accretive. In our view, the acquisition further demonstrates MBE's strong track record in acquiring profitable, earnings accretive businesses at conservatively priced multiples and diversifying its revenue streams. MBE trades on an undemanding FY16 PE of 11.6x and is on track to deliver EPS growth of 136% and 61% over the next two years, which appears cheap in our view. We upgrade our price target to \$0.43/sh and reiterate our Outperform recommendation.

Summary

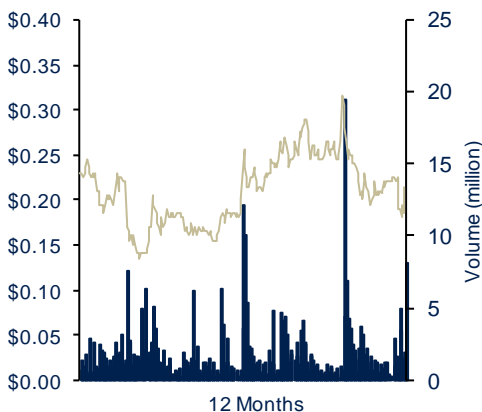
Market Capitalisation	\$87.1m
Share Price	\$0.22
52 week low	\$0.13
52 week high	\$0.32
Ave Monthly Vol (year rolling)	34.4m

Key Financials (A\$ million)

Year End	FY15 Act.	FY16 Est.	FY17 Est.
Revenue (\$m)	32.8	54.1	67.0
EBITDA (\$m)	5.1	10.6	16.7
NPAT (\$m)	3.0	7.5	12.2
EPS (c)	0.8	1.9	3.1
EPS Growth (%)	4%	136%	61%
PE (x)	32.9x	11.6x	7.2x
DPS (c)	0	0	0
Div Yield	na	na	na
EV (\$M)	77.6	77.6	77.6
EV/EBITDA (x)	15.2x	7.3x	4.6x
ROE	13.5%	25.1%	28.8%
EBITDA Margin	15.6%	19.7%	24.9%
Payout Ratio	na	na	na

Marketing Punch – MBE acquired Marketing Punch (MP) for upfront consideration of A\$5.6m, being £2.1m cash (A\$4.6m) and the issue of 4m MBE shares at \$0.26/sh (\$1.0m). The acquired business has an opted-in database of over 5m users, growing at 200k per month, with high levels of customer retention (60% over the past 5 years), and further expands MBE's performance marketing capabilities. MP is forecast to contribute £3.7m (A\$8.0m) revenue and £1.2m (A\$2.6m) EBITDA in FY16, implying an acquisition multiple of 2.2x. Additional consideration of up to £1.5m (\$3.3m) per year will be payable based on EBITDA growth targets (of ~40% p.a) being met by the vendor's management team, who will remain within the business. The acquisition was partly funded by a new £4.0m CBA (A\$8.7m) debt facility at an attractive interest rate (est. 3%) with undemanding covenants attached. Given MBE's residual balance sheet strength, we anticipate further earnings accretive acquisitions will be made in the coming periods.

Share Price Graph (A\$)



Record quarterly result - MBE also reported its best ever quarterly result, with revenue increasing 105% from the pcp to \$12.1m and EBITDA increasing substantially to \$2m from \$0.1m in Q1'15. The result was driven by strong organic growth in international m-payments revenues (20% month-on-month in CY15) and increasing contributions from the Performance Factory, Eggmobi and Vizmond businesses that were acquired in the past 12 months, all of which, positively, appear to be on track to meet their respective, aggressive earn out growth targets. The strong Q1 gives us further confidence in our near term earnings estimates.

Forecast changes – we increase our forecast EBITDA numbers to \$10.6m in FY16 (+12%) and \$16.7m in FY17 (+14%) to reflect contributions from the acquired MP business, offset by a larger than anticipated loss in UK-payments business as customer acquisition spend is substantially increased over 2HCY15. We now forecast NPAT of \$7.5m in FY16 and \$12.2m in FY17, implying growth of 148% and 60% respectively.

Mobile Embrace - Summary of Forecasts	\$0.22
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PROFIT & LOSS SUMMARY (A\$m)			
Period	FY15A	FY16E	FY17E
Total Revenue	32.8	54.1	67.0
<i>Growth (pcp)</i>	71%	65%	24%
EBITDA	5.1	10.6	16.7
D&A	(1.0)	(1.1)	(1.2)
EBIT	4.1	9.5	15.5
Net Interest	0.2	0.2	0.1
Pre-Tax Profit	4.1	9.7	15.6
Tax Expense	(1.0)	(2.1)	(3.4)
NPAT	3.0	7.5	12.2
<i>Growth (pcp)</i>	22%	148%	61%
Abnormals	0.0	0.0	0.0
Reported Profit	3.0	7.5	12.2

PER SHARE DATA			
Period	FY15A	FY16E	FY17E
EPS (c)	0.81	1.90	3.07
<i>Growth (pcp)</i>	4%	136%	61%
Dividend (c)	0.0	0.0	0.0
Franking	100%	100%	100%

KEY RATIOS			
Period	FY15A	FY16E	FY17E
EBITDA Margin (%)	15.6%	19.7%	24.9%
EBIT Margin (%)	12.6%	17.6%	23.1%
Debtor Days	100	100	100
EBIT Interest cover (x)	na	na	na
Current ratio (x)	2.3	2.4	2.6
Net Debt : Equity (%)	na	na	na
ROE (%)	14%	25%	29%
Dividend Payout Ratio	na	na	na

Valuation			
Period	FY15A	FY16E	FY17E
PE Ratio (x)	27.3	11.6	7.2
Dividend Yield (%)	na	na	na
FCF Yield (%)	4.5%	5.1%	11.7%
EV/EBITDA (x)	15.2	7.3	4.6
EV/EBIT (x)	18.8	8.2	5.0

BALANCE SHEET SUMMARY			
Period	FY15A	FY16E	FY17E
Cash	9.5	7.9	11.4
Receivables	9.0	14.9	18.4
Other	0.4	0.4	0.4
Total Current Assets	19.0	23.2	30.2
Property Plant & Equip	0.2	0.6	1.0
Intangibles	10.2	17.4	17.5
Other	2.6	4.4	6.7
Total Non-Current Assets	13.0	22.3	25.2
TOTAL ASSETS	32.0	45.5	55.4
Accounts Payable	4.7	7.8	9.7
Tax Liabilities	1.2	1.2	1.2
Provisions	0.6	0.6	0.6
Borrowings	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total Current Liab	6.5	9.6	11.5
Deferred Consid.	1.2	1.2	0.0
Other	0.1	0.1	0.1
Total Non-Current Liab	1.2	1.2	0.1
TOTAL LIABILITIES	7.8	10.9	11.6
TOTAL EQUITY	24.2	34.7	43.8

CASH FLOW SUMMARY			
Period	FY15A	FY16E	FY17E
EBITDA	5.1	10.6	16.7
Tax	0.0	(2.1)	(3.4)
Interest	0.2	0.2	0.1
Working Capital	(2.3)	(2.8)	(1.7)
Other	(0.1)	0.0	0.0
Operating Cash Flow	5.3	5.9	11.7
Capex	(1.5)	(1.4)	(1.5)
Free Cash Flow	3.8	4.5	10.2
Issues of Shares	0.1	0.0	0.0
Net Borrowings	0.0	4.3	0.0
Acquisition related	(6.5)	(10.4)	(6.8)
Dividends	0.0	0.0	0.0
Net cash Flow	(2.7)	(1.6)	3.4

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