

# Buddy Platform Limited (ASX: BUD)

## December quarter review (note: BUD has been in a trading halt from 31-Jan to 20 Feb)

21 February 2018

- 2Q FY18 revenue of A\$428k (vs A\$407k in 1Q FY18) with operating cash outflow of A\$3.21m (vs A\$2.56m in 1Q FY18).
- A\$28.4m cash balance on the back of a A\$23m capital issue @A\$0.20ps in October 2017, and A\$5.4m from options exercised (12.5m @ A\$0.03 and 40m @A\$0.125) in November 2017.

### State One commentary

Currently, the Buddy Cloud operations account for 100% of BUD's group revenues via existing customer contracts. Management states that the group's sales and marketing focus is now firmly directed at Buddy Ohm. This, we suggest, accounts for the relatively pedestrian +5% QoQ growth in revenue at Buddy Cloud. As a result, we have downwardly revised our forecast revenue profile at the combined Buddy Cloud & Alternative Data "Parse on Buddy" operations.

The main value and share price driver, however, is the group's real-time electricity, gas, and water consumption monitoring system – Buddy Ohm.

During the December quarter, the group announced a series of impressive distribution agreements with international technology and service providers including Ingram Micro Canada, Ingram Micro USA (the world's largest distributor of technology products), Telstra and Dicker Data (Australia), and UK's Rizon Group. These agreements add to the existing agreement with South America and Caribbean partner Digicel. Excluding the Ingram Micro USA distribution agreement, for which management is currently unable to offer a revenue forecast, BUD estimates aggregated revenues from signed contracts of over A\$69m (+33% on the prior quarter). However, management also states that the process of on-boarding each partner takes between three to six months and that revenues will only be recognised once the hardware is installed and the service agreement has formally begun. Consequently, management is guiding the market to expect first material revenues for Buddy Ohm (only) in 4Q FY18E.

### Target price: revised up to 23cps (21cps previously)

Relative to our original forecast, we have revised down the revenue profile at the Buddy Cloud/Parse operations. In addition, the on-boarding of channel partners is taking longer than we expected with sales revenue from Buddy Ohm not coming in as quickly as we had originally forecast. Nevertheless, we believe that the group has made key progress over the past six months in expanding the channel sales network to over 17 sales partners covering North America, Western Europe, the Caribbean, Latin America, and Australia, while securing a substantial amount of contracted revenue (confirmed in a 20 Feb 2018 response to the ASX Aware Query on 2 Feb). In addition, the equity injection of over A\$28m means that the group's balance sheet is essentially de-risked, giving the group sufficient working capital to support the anticipated ramp-up in revenue over the next 18-24 months.

As a result, we have lowered the risk discount attached to our Buddy Ohm valuation to 35% from 50%. Our revised valuation for BUD is A\$267m (23c per fully diluted share) versus our prior valuation of A\$215m (21cps).

**We maintain a Speculative Buy (Higher Risk) recommendation.**

Share Price: 18c

Target Price: 23c

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### IT – Software & Services

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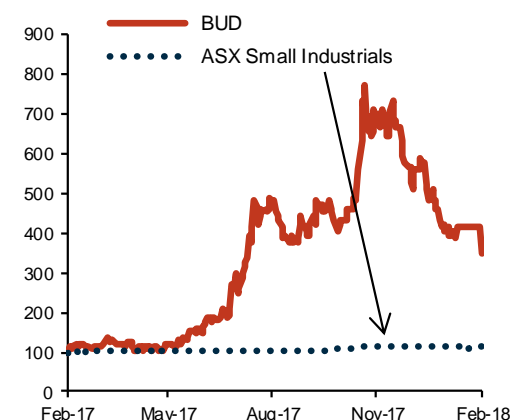
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### Buddy Platform Limited

ASX Code	BUD
52 week range (A\$c)	A\$5c-A\$42c
Fully diluted Market Cap (A\$m)	230
Fully diluted no. of shares (m)	1,149
Av Daily Turnover (shares)	3.9 million
ASX All Ordinaries	5,937
2018E BV per share (A\$c)	2.0
2018E EPS (A\$c)	-0.9
2018E Cash/(Net Deb) (A\$m)	21.5

### Relative price performance



Source: Iress

## Financial Statements

### Buddy Platform Limited

Year ending June

Profit & Loss Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	1.05	2.1	22.4	97.4	128.2
COGS and Service costs	(0.6)	(1.0)	(8.6)	(35.6)	(48.1)
Admin/salary/marketing	(7.5)	(7.5)	(7.7)	(7.8)	(8.0)
IT/R&D	(1.8)	(4.0)	(6.0)	(8.5)	(8.7)
<b>EBITDA</b>	<b>(8.9)</b>	<b>(10.5)</b>	<b>0.1</b>	<b>45.5</b>	<b>63.5</b>
Depreciation & Amortisation	(0.1)	(0.6)	(0.6)	(0.6)	(0.6)
<b>Operating profit</b>	<b>(9.0)</b>	<b>(11.0)</b>	<b>(0.5)</b>	<b>44.9</b>	<b>62.9</b>
NOI	(8.1)	(1.6)	0.0	0.0	0.0
<b>EBIT</b>	<b>(17.0)</b>	<b>(12.6)</b>	<b>(0.5)</b>	<b>44.9</b>	<b>62.9</b>
Interest income	0.1	0.2	0.6	0.5	1.1
Interest expense	0.0	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	(13.6)	(19.2)
<b>Reported NPAT</b>	<b>(16.9)</b>	<b>(12.4)</b>	<b>0.2</b>	<b>31.8</b>	<b>44.8</b>
<b>Normalised NPAT</b>	<b>(8.9)</b>	<b>(10.8)</b>	<b>0.2</b>	<b>31.8</b>	<b>44.8</b>
EBITDA Margin (%)	na	na	0%	47%	50%
Operating profit margin (%)	na	na	-2%	46%	49%
EPS Reported (A\$)	(1.6)	(1.1)	0.0	2.8	3.9
<b>EPS Normalised (A\$)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>0.0</b>	<b>2.8</b>	<b>3.9</b>
EPS growth (%)	na	na	na	na	41%
DPS - Declared (A\$)	0.0	0.0	0.0	0.8	1.2
Avg. no. of fully-diluted shares (m)	964	1,053	1,138	1,138	1,149
YE no. of fully-diluted shares (m)	1,034	1,149	1,149	1,149	1,149

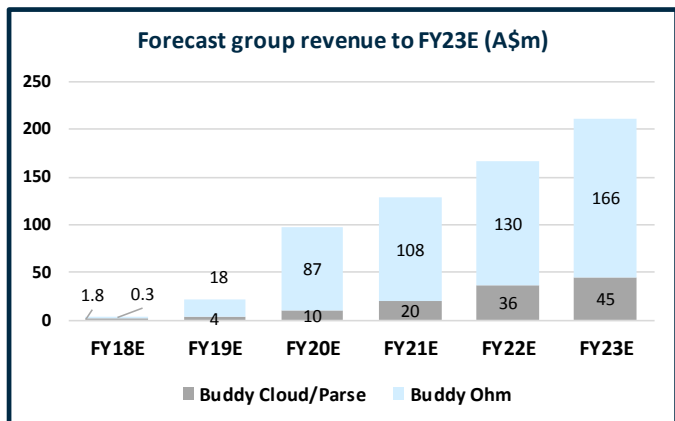
Cash Flow Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	(8.9)	(10.5)	0.1	45.5	63.5
Investment in working capital	0.2	0.4	(2.0)	(3.5)	(0.3)
Tax expense	0.0	0.0	0.0	(13.6)	(19.2)
<b>Operating Cash Flow</b>	<b>(8.7)</b>	<b>(10.1)</b>	<b>(1.9)</b>	<b>28.3</b>	<b>44.0</b>
Capex	0.0	(1.5)	(2.0)	(2.0)	(3.0)
Other investments	0.7	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>0.7</b>	<b>(1.5)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(3.0)</b>
Net interest received / (paid)	0.1	0.2	0.6	0.5	1.1
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	(9.5)	(13.4)
Equity raised / (repaid)	11.5	28.4	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>11.6</b>	<b>28.6</b>	<b>0.6</b>	<b>(9.0)</b>	<b>(12.4)</b>
Non-operating & Other	(8.3)	(1.6)	0.0	0.0	0.0
<b>Incl(Dec) in Cash</b>	<b>(4.7)</b>	<b>15.4</b>	<b>(3.3)</b>	<b>17.3</b>	<b>28.7</b>

Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	6.1	21.5	18.2	35.5	64.2
Receivables	0.5	0.2	2.0	7.8	9.0
Inventories	0.1	0.0	0.4	1.9	2.6
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	0.3	1.3	2.7	4.2	6.6
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.4	0.4	0.4	0.4	0.4
<b>Total Assets</b>	<b>7.5</b>	<b>23.4</b>	<b>23.8</b>	<b>49.9</b>	<b>82.8</b>
Payables and other current Liabilities	0.9	0.9	1.1	4.9	6.4
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>0.9</b>	<b>0.9</b>	<b>1.1</b>	<b>4.9</b>	<b>6.4</b>
<b>Total Equity</b>	<b>6.6</b>	<b>22.6</b>	<b>22.7</b>	<b>45.0</b>	<b>76.4</b>
Net Cash / (Debt)	6.1	21.5	18.2	35.5	64.2

Substantial Shareholders	%	Date
David McLauchlan	16.2	
Jeffrey MacDuff	9.1	Jun-17
A2 Partners	3.6	

Source: Company, IRESS, State One Stockbroking forecasts

Operational assumptions	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Revenue</b>					
Buddy Cloud / Parse (A\$m)	1.05	1.8	4.0	10.0	20.0
Buddy Ohm (A\$m)	-	0.3	18.4	87.4	108.2
<b>Total (A\$m)</b>	<b>1.05</b>	<b>2.1</b>	<b>22.4</b>	<b>97.4</b>	<b>128.2</b>
Cloud/Parse as % group revenue	100%	85%	18%	10%	16%
Buddy Ohm as % group revenue	0%	15%	82%	90%	84%
Service costs as % revenue	na	50%	39%	37%	37%
Other costs as % revenue	na	561%	61%	17%	13%
Total costs as % revenue	na	611%	100%	53%	50%
<b>EBITDA margin (%)</b>	<b>na</b>	<b>na</b>	<b>0%</b>	<b>47%</b>	<b>50%</b>



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	cash	cash	cash	cash	cash
Gearing (ND/ND+E)	cash	cash	cash	cash	cash
Interest Cover (x)	na	na	na	na	na


Valuation Ratios	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E (x)	na	na	1368.8	6.5	4.6
Price/OP Cash Flow (x)	-24	-21	-108.6	7.3	4.7
Book value per share (A\$)	0.6	2.0	2.0	3.9	6.6
EV/EBITDA (x)	-23	-18	3296	3.8	2.2
ROE (%)	-134%	-48%	1%	71%	59%

Risk NPV-derived Target Price	A\$m	A\$cps (rounded)
IoT/Parse: NPV value (A\$m) unrisked	70	6
<b>Risk discount</b>		<b>50%</b>
<b>IoT/Parse : NPV value (A\$m) risked</b>	<b>35</b>	<b>3</b>
Buddy Ohm: NPV value (A\$m) unrisked	324	28
<b>Risk discount</b>		<b>35%</b>
<b>Buddy Ohm : NPV value (A\$m) risked</b>	<b>211</b>	<b>18</b>
<b>Enterprise value</b>	<b>246</b>	<b>21</b>
FY18E net cash	21	2
<b>Equity value</b>	<b>267</b>	<b>23</b>
Current share price (A\$)		18
% upside / (downside)		29%
Note: Fully diluted no. of shares (m)	1,149	

**Company Profile:** Buddy Platform Limited (ASX:BUD) listed on the ASX in December 2015 after a RTO of Potash Minerals and after completing a A\$12.5m capital raise. BUD provides one of the world's first data aggregation and management platforms for the Internet of Things (IoT) and connected devices. Buddy Platform users represent a wide variety of industries, including airlines, agriculture, automotive, consumer electronics, robotics, software development, telecommunications, and transportation. In March 2017, BUD launched Buddy Ohm - a real-time electricity, gas, and water consumption monitoring system targeting small to medium-sized buildings and facilities. BUD is headquartered in Seattle, Washington, with offices in Adelaide (SA).

## Buddy Ohm

Figure 1: Background - product overview



Buddy Ohm measures electricity, gas, water and steam consumption, along with solar generation + temperature/humidity via small remote sensors

It is designed for small-medium buildings

It has a self-contained cellular modem, so it is always connected to the Buddy Cloud

Because it is always connected, we can update it with new functionality remotely, just like an iPhone app.

Source: Company

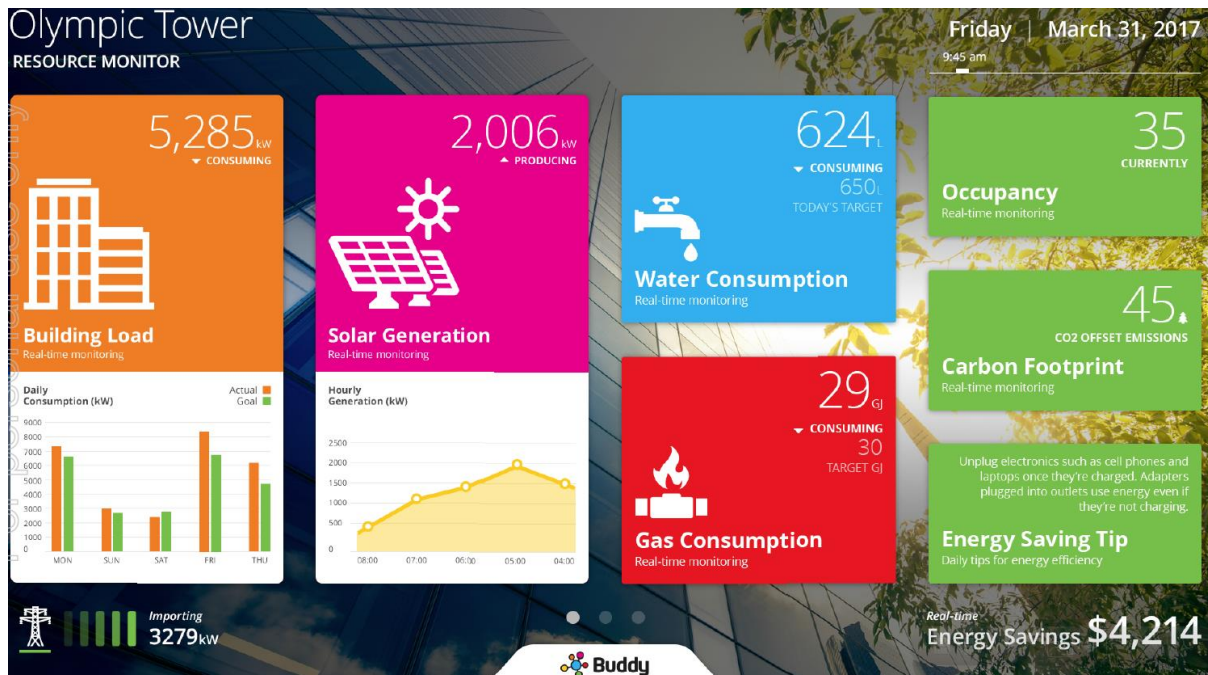
Figure 2: Background – example of competitor products



Products exist that do this... but they're terrible  
 some combination of: expensive, hard to use, no access to data, only monitor electricity, ugly).

Source: Company

Figure 3: Example of Buddy Ohm front-end display



Source: Company

**Risks to our earnings profile and target price include, but are not limited to:**

- Contracting risk: BUD's ability to secure new IoT/Parse contracts is not certain, nor are the revenue streams and volumes that may apply to those contracts.
- Visibility on the timing and quantum of Buddy Ohm system sales, and unit price (revenue) and costs associated with these sales.
- Increased competition from new and existing domestic and global competitors and technologies.
- Dependence upon key personnel.
- Regulatory risk, especially relating to third party data security and access.
- Currency risk: we forecast that a portion of revenue will be derived from North America. Accordingly, changes in the AUD:USD exchange rate could have an impact on fiscal performance.

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