

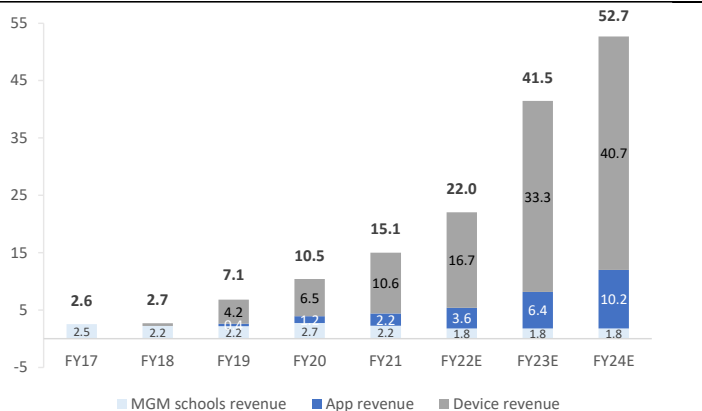
# Spacetalk

## New international partnerships imminent

Spacetalk published its FY21 annual report yesterday. Whilst the financials had already been reported there were interesting new details on the outlook and board structure. The chairman’s statement suggests distribution partnerships in Continental Europe and the USA are imminent and an independent chairman will be appointed. Our fair value is \$0.60 per share (>160% upside).

- **Partnerships imminent:** “Pan-European dialogues are being progressed for launches with bricks and mortar retail and mobile network operators” according to the chairman’s statement. Additionally, the plan to launch in the US before the end of the calendar year remains on track with an office opened in Texas and distribution agreements “being finalised”.
- **Strengthening the board:** Spacetalk’s board currently has three directors – with Mark Fortunatow acting as Chair and CEO. The company now plans to increase the size of the board to five, including an independent chairman. The changes should improve corporate governance and help the company scale.
- **Growth to accelerate:** Spacetalk launched its second-generation children’s smartwatch “Adventurer” shortly before Christmas in 2020. It is now the only children’s smartwatch offered by the largest mobile network operators in the UK (O2, launched July 2021) and Australia (Telstra, launched April 2021). Increasing distribution explains our forecasts for a tripling of revenue over the next three years (Fig 1).
- **Fair value of \$0.60 per share:** Our DCF derived fair value puts the shares on an EV/Revenue multiple of 2.4x in FY23 vs. 0.9x currently and a peer average of 4.9x. Peers include Life360, Family Zone Cyber, ReadCloud, ReadyTech, ikeGPS and Catapult Group.

Figure 1: Spacetalk revenue forecasts by segment (\$m)



Source: Veritas research, company data.

## SPA.ASX

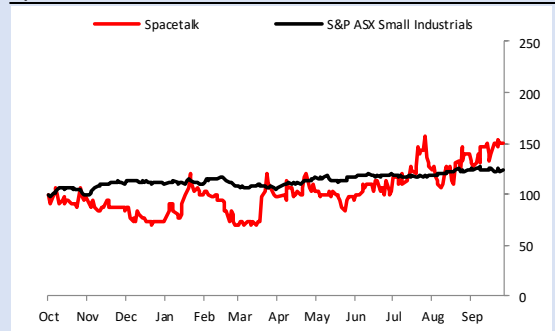
BUY

Friday 1 October 2021

Share Price	\$0.23
Price Target	\$0.60
Valuation Method	DCF
Market capitalisation	\$38.0m
Enterprise value	\$38.1m
GICS sector	Consumer Electronics
12 month price range	\$0.11 - \$0.24
Shares in issue	165.3m
Top 20 holders	69.8m
Previous rating	Buy

Year ended June 30		FY21	FY22E	FY23E	FY24E
Revenue	\$m	15.1	22.0	41.5	52.7
Growth	%	44.2	45.7	88.2	27.1
EBITDA	\$m	0.7	(0.1)	2.4	5.6
Margin	%	4.8	(0.4)	5.7	10.7
NPAT	\$m	(1.8)	(4.2)	(1.7)	0.5
EPS	¢ps	(1.0)	(2.2)	(0.8)	0.2
CFPS	¢ps	(0.7)	(0.9)	0.9	2.4
PER	x	N/A	N/A	N/A	N/A
Price/Cash Flow	x	N/A	N/A	24.9	9.7
EV/Revenue	x	2.5	1.7	0.9	0.7
EV/EBITDA	x	52.1	N/A	16.1	6.8
EV/EBIT	x	N/A	N/A	N/A	32.3
EV/Capital	x	4.0	3.3	2.9	3.0
Gearing (net debt: capital)	%	1	0	17	3
Fixed charge cover	x	N/A	N/A	N/A	2
Return on capital	%	N/A	N/A	N/A	7

### Spacetalk vs. Small Industrials Index



Source: FactSet, Veritas

Spacetalk provide communications solutions to families and is a leader in the emerging children and seniors smartwatch categories.

<https://www.spacetalk.com>

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## EQUITIES RESEARCH

### Spacetalk

Share Price: \$0.23 ps

Valuation: \$0.60 ps

#### Financial Performance (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7.1	10.5	15.1	22.0	41.5	52.7
Cost of sales	(1.9)	(3.0)	(5.8)	(10.3)	(20.7)	(26.6)
Gross profit	5.2	7.4	9.4	11.7	20.7	26.1
Operating costs	(5.5)	(7.6)	(8.3)	(11.3)	(17.4)	(19.5)
Share based payments	(3.4)	(2.5)	(0.4)	(0.5)	(1.0)	(1.0)
Normalised EBITDA	(3.6)	(2.7)	0.7	(0.1)	2.4	5.6
Depreciation and amortisation	(2.0)	(2.5)	(3.0)	(3.7)	(4.2)	(4.5)
Normalised EBIT	(5.6)	(5.1)	(2.3)	(3.7)	(1.8)	1.2
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.0)	(0.1)	(0.2)	(0.5)	(0.5)	(0.5)
Normalised Pre-tax Profit	(5.6)	(5.3)	(2.4)	(4.2)	(2.3)	0.7
Normalised tax	1.0	1.0	0.7	0.0	0.6	(0.2)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	(4.7)	(4.3)	(1.8)	(4.2)	(1.7)	0.5
One off items (post-tax)	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit to holders	(4.7)	(4.3)	(1.8)	(4.2)	(1.7)	0.5

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

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Normalised EBITDA	(3.6)	(2.7)	0.7	(0.1)	2.4	5.6
Non cash items	3.4	2.5	0.4	0.5	1.0	1.0
Cash net interest	(0.0)	(0.1)	(0.3)	(0.5)	(0.5)	(0.5)
Cash tax (paid)/received	0.6	1.0	0.7	0.0	0.6	(0.2)
Working capital/other	(0.9)	0.3	(2.7)	(1.6)	(1.5)	(0.8)
Operating Cash Flow	(0.5)	0.9	(1.2)	(1.7)	2.0	5.2
Capex	(2.2)	(3.1)	(3.0)	(4.0)	(4.0)	(3.0)
Free Cash Flow	(2.8)	(2.2)	(4.2)	(5.7)	(2.0)	2.1
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Equity raised/buybacks	0.5	5.2	2.5	6.0	0.0	0.0
Borrowings/(debt repayment)	1.3	(1.3)	3.0	2.0	0.0	(2.0)
Other inc. finance leases	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net increase/(decrease) cash	(1.0)	1.5	1.0	2.0	(2.3)	(0.1)
Cash at beginning	2.6	1.6	3.2	4.2	6.2	3.9
Cash at end (including bank deposit)	1.6	3.2	4.2	6.2	3.9	3.8

#### Balance Sheet (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cash and cash equivalents	1.6	3.2	4.2	6.2	3.9	3.8
Trade and other receivables	0.8	1.0	2.2	4.8	8.0	9.5
Inventories	1.2	1.0	1.7	1.8	2.8	3.6
Other current assets	1.0	1.1	2.8	2.8	2.8	2.8
Current assets	4.7	6.3	10.9	15.6	17.5	19.7
Plant and equipment	0.2	0.2	0.2	0.2	0.2	0.3
Intangible assets	2.8	3.7	3.9	4.5	4.6	3.4
Right of use	0.0	0.1	0.3	0.3	0.3	0.3
Deferred tax assets	0.0	0.5	0.7	0.7	0.7	0.7
Non current assets	3.0	4.5	5.1	5.7	5.8	4.7
Assets	7.7	10.7	16.0	21.3	23.3	24.3
Trade and other payables	1.3	2.1	1.9	3.0	5.7	7.2
Provisions	0.3	0.2	0.4	0.4	0.4	0.4
Borrowings & leases	0.0	0.1	0.2	0.2	0.2	0.2
Income tax liability	0.0	0.0	0.1	0.1	0.1	0.1
Current liabilities	1.6	2.4	2.6	3.7	6.3	7.9
Borrowings	1.3	0.0	4.1	6.1	6.1	4.1
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	1.3	0.0	4.1	6.1	6.1	4.1
Total liabilities	2.9	2.4	6.7	9.7	12.4	11.9
Issued shares	10.8	16.1	18.7	25.2	26.2	27.2
Reserve options	3.7	6.2	6.4	6.4	6.4	6.4
Accumulated losses	(9.7)	(14.0)	(15.8)	(20.0)	(21.7)	(21.2)
Total equity	4.8	8.3	9.4	11.6	10.9	12.4

#### Directors and Key Management Personnel

	Shares	Holding
Mark Fortunatow	17.3m	10.5%
Martin Pretty	0.2m	0.1%
Brandon Gien	0.1m	0.1%

#### Major Shareholders

	Shares	Holding
Mark Fortunatow	17.3m	10.5%
Thorney Investment Group	13.3m	8.0%
Noel Hurd	4.0m	2.4%
<b>Top 20 shareholders</b>	<b>69.8m</b>	<b>42.3%</b>

Source: Company data, Veritas Securities estimates

#### Valuation Metrics

	Valuation
Price Target (ps)	\$0.60 163%
Share Price (ps)	\$0.23
FY22E EV/Sales (x)	1.7
Implied FY22 EV/Sales (x)	4.5 163%
Implied FY23 EV/Sales (x)	2.4 40%
Market Capitalisation (A\$m)	38.0
Enterprise Value (A\$m)	38.1
Shares in issue (m)	165.3

#### Valuation Multiples

Year ended June	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E (x)	N/A	N/A	N/A	N/A	N/A	N/A
Price/Cash Flow (x)	N/A	34.5	N/A	N/A	24.9	9.7
EV/Revenue (x)	5.3	3.6	2.5	1.7	0.9	0.7
EV/EBITDA (x)	N/A	N/A	52.1	N/A	16.1	6.8
EV/EBIT (x)	N/A	N/A	N/A	N/A	N/A	32.3
Equity FCF yield (%)	-7.3	-5.8	-11.1	-15.1	-5.3	5.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	8.6	7.2	4.0	3.3	2.9	3.0
Price to book value (x)	6.1	3.9	4.3	3.9	4.6	4.0

#### Per Share Data

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS diluted - adjusted (cps)	(3.69)	(3.03)	(1.01)	(2.15)	(0.77)	0.23
EPS diluted (cps)	(3.69)	(3.03)	(1.01)	(2.15)	(0.77)	0.23
Cash flow per share (cps)	(0.4)	0.7	(0.7)	(0.9)	0.9	2.4
Free cash flow per share (cps)	(2.2)	(1.6)	(2.4)	(2.9)	(0.9)	1.0
Cash (cps)	1.3	2.2	2.4	3.2	1.8	1.8
Net assets (cps)	3.8	5.9	5.3	5.9	5.0	5.7
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0	0.0
Shares on issue - avg. basic (m)	121	138	164	185	205	205
Shares on issue - avg. diluted (m)	127	141	175	197	217	217

#### Segmental Revenue (\$Am)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
App ARR	0.8	1.5	2.8	4.5	8.3	12.1
App revenue	0.4	1.2	2.2	3.6	6.4	10.2
Device revenue	4.2	6.5	10.6	16.7	33.3	40.7
SpaceTalk revenue	4.6	7.7	12.8	20.2	39.7	50.9
MGM schools revenue	2.2	2.7	2.2	1.8	1.8	1.8
Trading revenue	6.8	10.4	15.0	22.0	41.5	52.7
Grants & other income	0.3	0.1	0.1	0.0	0.0	0.0
Revenue	7.1	10.5	15.1	22.0	41.5	52.7

#### Segmental Revenue Growth (% YoY)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
App ARR growth	N/A	87.5	88.1	58.2	84.9	47.0
App revenue growth	N/A	180.0	79.3	66.4	77.6	60.3
Device revenue growth	836.5	53.8	63.8	57.1	100.0	22.2
Spacetalk revenue growth	931.9	65.4	66.2	58.6	96.0	28.3
MGM schools revenue growth	(1.9)	25.1	(18.1)	(19.8)	0.0	0.0
Trading revenue growth	154.5	52.5	44.0	46.9	88.2	27.1
Revenue growth	160.3	46.8	44.2	45.7	88.2	27.1

#### Performance Ratios (%)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Gross margin	73.1	70.9	61.9	53.1	50.0	49.5
EBITDA margin	(51.0)	(25.6)	4.8	(0.4)	5.7	10.7
Gross debt inc. leases (\$ m)	1.3	0.1	4.2	6.2	6.2	4.2
Net cash/(debt) (\$ m)	0.4	3.0	(0.1)	(0.0)	(2.3)	(0.4)
Gearing (net debt/(cash): capital)	(8.7)	(57.3)	0.6	0.2	17.4	3.3
Fixed charge cover	N/A	N/A	N/A	N/A	N/A	1.9
Return on capital	N/A	N/A	N/A	N/A	N/A	6.5

## 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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