

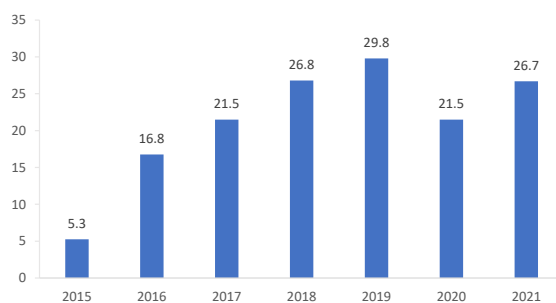
Spacetalk

Breaking out

Spacetalk has announced a \$10.5m equity raising, relieving doubts as to its ability to keep up with demand. Amazon and Walmart will soon range Spacetalk online in the US. Best Buy will range it online in the US and Canada. Elkjøp, the largest consumer electronics retailer in the Nordics, will soon commence selling the product in Norwegian stores and online throughout the Nordics. Elisa, the Finnish equivalent of Telstra, began selling the product yesterday ([link](#)). We are upgrading our revenue forecasts by 1-6% over FY22 to FY24 and see more than 3x upside to our fair value of \$0.60 per share.

- **The kid’s smartwatch market set to boom:** The market for kids and seniors smartwatches was growing rapidly before COVID: at 54% CAGR over the four years to 2019 according to Qualcomm (Figure 1). We expect growth to accelerate with the easing of social restrictions and improving features.
- **Spacetalk - the foremost non-Chinese solution:** The market for children’s smartwatches is currently dominated by fitness trackers with limited functionality (such as the Fitbit Ace 3) or Chinese designed connected smartwatches (such as the Xplora X5). Chinese designed products are coming under increasing scrutiny: five out of six competitors to Spacetalk allowed hackers to track kids according to Munster University of Applied Sciences in Germany in September 2020 ([link](#)). Spacetalk is the foremost connected children’s smartwatch to be completely designed outside of China with validated security. This explains its popularity with retailers and networks and should underpin market share gains.
- **Alleviating capital constraints:** Spacetalk has announced a equity raising of \$10.5m (\$8.0m via placement and \$2.5m via a planned Share Purchase Plan) at \$0.19 per share. The capital will be applied to inventory, staff for international expansion and product development.
- **Fair value of \$0.60 per share:** Our DCF derived fair value puts the shares on an EV/Revenue multiple of 2.9x in FY23 vs. 0.8x currently. Spacetalk’s peers (Life360, Family Zone Cyber, ReadCloud, ReadyTech, ikeGPS and Catapult Group) trade on an average EV/Revenue of 5x.

Figure 1: Global kid’s and seniors smartwatch shipments (m units)



Source: Qualcomm Wearable Ecosystem Accelerator Summit on October 26-27 of 2021, Veritas.

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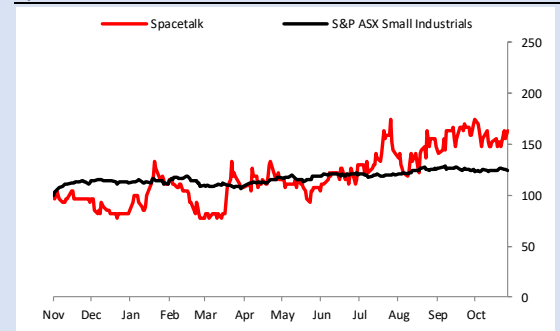
BUY

Tuesday 2 November 2021

Share Price	\$0.19
Price Target	\$0.60
Valuation Method	DCF
Market capitalisation	\$41.9m
Enterprise value	\$35.3m
GICS sector	Consumer Electronics
12 month price range	\$0.11 - \$0.24
Shares in issue	220.6m
Top 20 holders	69.8m
Previous rating	Buy

Year ended June 30		FY21	FY22E	FY23E	FY24E
Revenue	\$m	15.1	23.0	43.5	58.9
Growth	%	44.2	52.3	88.9	35.5
EBITDA	\$m	0.7	(1.5)	2.2	7.0
Margin	%	4.8	(6.5)	5.0	11.9
NPAT	\$m	(1.8)	(5.7)	(1.8)	1.5
EPS	cps	(1.0)	(2.6)	(0.8)	0.6
CFPS	cps	(0.7)	(1.5)	0.8	2.5
PER	x	N/A	N/A	N/A	29.7
Price/Cash Flow	x	N/A	N/A	24.9	7.7
EV/Revenue	x	2.3	1.5	0.8	0.6
EV/EBITDA	x	48.3	N/A	16.3	5.0
EV/EBIT	x	N/A	N/A	N/A	13.8
EV/Capital	x	3.7	3.0	2.6	2.6
Gearing (net debt: capital)	%	1	(19)	2	(16)
Fixed charge cover	x	N/A	N/A	N/A	4
Return on capital	%	N/A	N/A	N/A	14

Spacetalk vs. Small Industrials Index



Source: FactSet, Veritas

Spacetalk provides 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

Financial Performance (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7.1	10.5	15.1	23.0	43.5	58.9
Cost of sales	(1.9)	(3.0)	(5.8)	(10.9)	(21.8)	(30.1)
Gross profit	5.2	7.4	9.4	12.1	21.7	28.9
Operating costs	(5.5)	(7.6)	(8.3)	(13.1)	(18.5)	(20.9)
Share based payments	(3.4)	(2.5)	(0.4)	(0.5)	(1.0)	(1.0)
Normalised EBITDA	(3.6)	(2.7)	0.7	(1.5)	2.2	7.0
Depreciation and amortisation	(2.0)	(2.5)	(3.0)	(3.7)	(4.2)	(4.5)
Normalised EBIT	(5.6)	(5.1)	(2.3)	(5.2)	(2.0)	2.6
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)	(5.7)	(2.5)	2.1
Normalised tax	1.0	1.0	0.7	0.0	0.7	(0.6)
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)	(5.7)	(1.8)	1.5
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)	(5.7)	(1.8)	1.5

Cash Flow Statement (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Normalised EBITDA	(3.6)	(2.7)	0.7	(1.5)	2.2	7.0
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	0.7	(0.6)
Working capital/other	(0.9)	0.3	(2.7)	(1.8)	(1.6)	(1.2)
Operating Cash Flow	(0.5)	0.9	(1.2)	(3.3)	1.8	5.7
Capex	(2.2)	(3.1)	(3.0)	(4.0)	(4.0)	(3.0)
Free Cash Flow	(2.8)	(2.2)	(4.2)	(7.3)	(2.3)	2.7
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	9.9	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	4.3	(2.5)	0.4
Cash at beginning	2.6	1.6	3.2	4.2	8.5	6.0
Cash at end (including bank deposits)	1.6	3.2	4.2	8.5	6.0	6.5

Balance Sheet (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cash and cash equivalents	1.6	3.2	4.2	8.5	6.0	6.5
Trade and other receivables	0.8	1.0	2.2	5.0	8.3	10.6
Inventories	1.2	1.0	1.7	1.9	3.0	4.0
Other current assets	1.0	1.1	2.8	2.8	2.8	2.8
Current assets	4.7	6.3	10.9	18.2	20.1	23.9
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	24.0	26.0	28.5
Trade and other payables	1.3	2.1	1.9	3.2	6.0	8.0
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	3.8	6.6	8.7
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	9.9	12.7	12.8
Issued shares	10.8	16.1	18.7	29.1	30.1	31.1
Reserve options	3.7	6.2	6.4	6.4	6.4	6.4
Accumulated losses	(9.7)	(14.0)	(15.8)	(21.4)	(23.2)	(21.8)
Total equity	4.8	8.3	9.4	14.1	13.3	15.8

Directors and Key Management Personnel

	Shares	Holding
Mark Fortunatow	17.3m	7.9%
Martin Pretty	0.2m	0.1%
Brandon Gien	0.1m	0.1%

Major Shareholders

	Shares	Holding
Mark Fortunatow	17.3m	7.9%
Thorney Investment Group	13.3m	6.0%
Noel Hurd	4.0m	1.8%
Top 20 shareholders	69.8m	31.7%

Source: Company data, Veritas Securities estimates. Note: Shareholding data is prior to the latest capital raise.

Share Price: \$0.19 ps

Valuation: \$0.60 ps

Valuation Metrics

	Valuation
Price Target (ps)	\$0.60
Share Price (ps)	\$0.19
FY22E EV/Sales (x)	1.5
Implied FY22 EV/Sales (x)	5.4
Implied FY23 EV/Sales (x)	2.9
Market Capitalisation (A\$m)	41.9
Enterprise Value (A\$m)	35.3
Shares in issue (m)	220.6

Valuation Multiples

Year ended June	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E (x)	N/A	N/A	N/A	N/A	N/A	29.7
Price/Cash Flow (x)	N/A	28.5	N/A	N/A	24.9	7.7
EV/Revenue (x)	4.9	3.4	2.3	1.5	0.8	0.6
EV/EBITDA (x)	N/A	N/A	48.3	N/A	16.3	5.0
EV/EBIT (x)	N/A	N/A	N/A	N/A	N/A	13.8
Equity FCF yield (%)	-6.6	-5.3	-10.1	-17.5	-5.4	6.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	8.0	6.7	3.7	3.0	2.6	2.6
Price to book value (x)	5.0	3.2	3.6	2.9	3.3	2.8

Per Share Data

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS diluted - adjusted (cps)	(3.69)	(3.03)	(1.01)	(2.64)	(0.78)	0.64
EPS diluted (cps)	(3.69)	(3.03)	(1.01)	(2.64)	(0.78)	0.64
Cash flow per share (cps)	(0.4)	0.7	(0.7)	(1.5)	0.8	2.5
Free cash flow per share (cps)	(2.2)	(1.6)	(2.4)	(3.4)	(1.0)	1.1
Cash (cps)	1.3	2.2	2.4	4.0	2.6	2.8
Net assets (cps)	3.8	5.9	5.3	6.6	5.7	6.8
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	202	221	221
Shares on issue - avg. diluted (m)	127	141	175	214	232	232

Segmental Revenue (\$Am)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
App ARR	0.8	1.5	2.8	4.6	8.6	13.2
App revenue	0.4	1.2	2.2	3.6	6.6	10.9
Device revenue	4.2	6.5	10.6	17.7	35.2	46.3
SpaceTalk revenue	4.6	7.7	12.8	21.3	41.7	57.2
MGM schools revenue	2.2	2.7	2.2	1.8	1.8	1.8
Trading revenue	6.8	10.4	15.0	23.0	43.5	58.9
Grants & other income	0.3	0.1	0.1	0.0	0.0	0.0
Revenue	7.1	10.5	15.1	23.0	43.5	58.9

Segmental Revenue Growth (% YoY)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
App ARR growth	N/A	87.5	86.7	63.6	88.0	53.5
App revenue growth	N/A	180.0	79.3	66.0	84.8	65.5
Device revenue growth	836.5	53.8	63.8	67.0	98.5	31.6
Spacetalk revenue growth	931.9	65.4	66.2	66.8	96.2	36.9
MGM schools revenue growth	(1.9)	25.1	(18.1)	(22.1)	0.0	0.0
Trading revenue growth	154.5	52.5	44.0	53.5	88.9	35.5
Revenue growth	160.3	46.8	44.2	52.3	88.9	35.5

Performance Ratios (%)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Gross margin	73.1	70.9	61.9	52.5	49.8	49.0
EBITDA margin	(51.0)	(25.6)	4.8	(6.5)	5.0	11.9
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)	2.3	(0.2)	2.2
Gearing (net debt/(cash): capital)	(8.7)	(57.3)	0.6	(19.4)	1.6	(16.3)
Fixed charge cover	N/A	N/A	N/A	N/A	N/A	3.8
Return on capital	N/A	N/A	N/A	N/A	N/A	13.7

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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