

Spacetalk Limited

The night is darkest before the dawn

Spacetalk shares have come under pressure from trading that was below our expectations and activist attempts to remove the founder from the Board. The appointment of Georg Chmiel, an experienced independent Chair, and better communication on cost reduction initiatives should address the primary shareholder concerns. We are rebasing our forecasts to reflect a slower than expected international roll-out. Positive indications from the launch of Jumpy SIM in the US may mean we are past the worst.

- **Under pressure:** Spacetalk shares have come under pressure from lower than expected 2H22 revenue of \$8.4m versus \$11.6m Veritas' January 2022 estimate and a perception that executives are insufficiently invested in the company. This has culminated in a group of shareholders which own slightly more than 5% of the company lodging a Section 249D notice in an attempt to remove the founder Mark Fortunatow as director. The EGM is scheduled for 1 September 2022 at 4pm AEST. A second resolution to remove new directors was dropped this morning.
- **Concerns are being addressed:** The c70% decline in the share price since January has triggered a number of changes that we expect should create shareholder value over coming months including: the appointment of Georg Chmiel as non-executive and independent chairman on 1 July 2022; a 15% reduction in headcount announced on 25 July 2022; the launch of Jumpy SIM, Spacetalk's own mobile virtual network operator (MVNO), to capture a greater share of wallet.
- **Jumpy SIM a potential catalyst:** Jumpy SIM was launched for US customers in July 2022 to simplify the customer journey - the bundling of a Jumpy SIM with a smartwatch avoids the hassle of separately procuring a SIM card. Spacetalk competitor Xplora generated \$19.5m of revenue from its MVNO which averaged 123k subscribers over the twelve months to June 2022. We estimate that there were 85k active Spacetalk users over the same period (using third party SIM cards).
- **De-risking the investment case:** A more uncertain economic outlook and the disruption of cost cutting means we are significantly lowering our revenue growth and profit forecasts (Figure 1). Our DCF fair value moves to \$0.22 (was \$0.50) accordingly.

Figure 1. Changes to Veritas forecasts for Spacetalk (\$m)

Year ended June 30 (\$m)	FY22E			FY23E			FY24E		
	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.
Revenue	23.9	20.7	-3.3	45.1	24.7	-20.4	60.5	32.4	-28.2
Growth (% YoY)	58.3	36.6	-21.7	88.5	19.7	-68.8	34.2	31.0	-3.2
EBITDA	-0.9	-2.9	-2.1	2.4	-2.0	-4.4	7.1	1.8	-5.4
Margin (%)	-3.7	-14.3	-10.6	5.2	-8.1	-13.3	11.8	5.5	-6.3
Profit before tax	-5.0	-7.0	-1.9	-2.3	-6.4	-4.1	2.2	-1.4	-3.6
Normalised dil. EPS (cps)	-2.3	-3.0	-0.7	-0.7	-2.0	-1.2	0.7	-0.4	-1.1
Free Cash Flow	-9.7	-9.4	0.3	-2.0	-2.5	-0.5	2.8	1.1	-1.8

Source: Veritas estimates.

SPA.ASX

BUY

Wednesday 10 August 2022

Share Price	\$0.054
Price Target	\$0.22
Valuation Method	DCF
Market capitalisation	\$11.7m
Enterprise value	\$11.5m
GICS sector	Software and Services
12 month price range	\$0.10 - \$0.24
Shares in issue	217.6m
Top 20 holders	69.8m
Previous rating	Buy

Year ended June 30		FY22E	FY23E	FY24E	FY25E
Revenue	\$m	20.7	24.7	32.4	40.5
Growth	%	36.6	19.7	31.0	25.1
EBITDA	\$m	(2.9)	(2.0)	1.8	5.0
Margin	%	(14.3)	(8.1)	5.5	12.3
NPAT	\$m	(6.3)	(4.6)	(1.0)	1.7
EPS	cps	(3.0)	(2.0)	(0.4)	0.7
CFPS	cps	(3.1)	(0.2)	0.9	2.0
PER	x	N/A	N/A	N/A	7.4
Price/Cash Flow	x	N/A	N/A	6.0	2.7
EV/Revenue	x	0.6	0.5	0.4	0.3
EV/EBITDA	x	N/A	N/A	6.5	2.3
EV/EBIT	x	N/A	N/A	N/A	3.6
EV/Capital	x	0.9	1.0	1.0	1.1
Gearing (net debt: capital)	%	(2)	30	31	7
Fixed charge cover	x	N/A	N/A	N/A	3
Return on capital	%	N/A	N/A	N/A	22

Spacetalk vs. Small Industrials Index



Source: FactSet, Veritas

Spacetalk is a provider of communication solutions for families. The company is a leading producer of connected smartwatches for children and seniors globally.

<https://www.spacetalk.com>

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Spacetalk

Share Price: \$0.054 ps

Valuation: \$0.22 ps

Financial Performance (A\$m)

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
Revenue	10.5	15.1	20.7	24.7	32.4	40.5
Cost of sales	(3.0)	(5.8)	(8.4)	(9.9)	(13.1)	(16.4)
Gross profit	7.4	9.4	12.3	14.9	19.3	24.1
Operating costs	(7.6)	(8.3)	(14.8)	(16.9)	(17.0)	(18.6)
Share based payments	(2.5)	(0.4)	(0.5)	0.0	(0.5)	(0.5)
Normalised EBITDA	(2.7)	0.7	(2.9)	(2.0)	1.8	5.0
Depreciation and amortisation	(2.5)	(3.0)	(3.7)	(3.5)	(2.3)	(1.8)
Normalised EBIT	(5.1)	(2.3)	(6.6)	(5.5)	(0.5)	3.2
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.1)	(0.2)	(0.9)	(0.9)	(0.9)	(0.8)
Normalised Pre-tax Profit	(5.3)	(2.4)	(7.0)	(6.4)	(1.4)	2.4
Normalised tax	1.0	0.7	0.7	1.8	0.4	(0.7)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	(4.3)	(1.8)	(6.3)	(4.6)	(1.0)	1.7
One off items (post-tax)	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit to holders	(4.3)	(1.8)	(6.3)	(4.6)	(1.0)	1.7

Cash Flow Statement (A\$m)

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
Normalised EBITDA	(2.7)	0.7	(2.9)	(2.0)	1.8	5.0
Non cash items	2.5	0.4	0.5	0.0	0.5	0.5
Cash net interest	(0.1)	(0.3)	(0.0)	0.0	0.0	0.0
Cash tax (paid)/received	1.0	0.7	0.0	1.8	0.4	(0.7)
Working capital/other	0.3	(2.7)	(4.2)	(0.2)	(0.5)	(0.0)
Operating Cash Flow	0.9	(1.2)	(6.6)	(0.5)	2.1	4.8
Capex	(3.1)	(3.0)	(2.8)	(2.0)	(1.0)	(1.0)
Free Cash Flow	(2.2)	(4.2)	(9.4)	(2.5)	1.1	3.8
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	5.2	2.5	9.2	0.0	0.0	0.0
Borrowings/(debt repayment)	(1.3)	3.0	1.8	0.0	(2.6)	(4.4)
Other inc. finance leases	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net increase/(decrease) cash	1.5	1.0	1.3	(2.7)	(1.7)	(0.8)
Cash at beginning	1.6	3.2	4.2	5.5	2.8	1.1
Cash at end (including bank deposits)	3.2	4.2	5.5	2.8	1.1	0.2

Balance Sheet (A\$m)

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
Cash and cash equivalents	3.2	4.2	5.5	2.8	1.1	0.2
Trade and other receivables	1.0	2.2	3.6	4.7	6.2	7.8
Inventories	1.0	1.7	5.0	4.7	5.3	5.6
Other current assets	1.1	2.8	2.3	2.3	2.3	2.3
Current assets	6.3	10.9	16.4	14.5	14.9	15.8
Plant and equipment	0.2	0.2	0.3	0.3	0.3	0.3
Intangible assets	3.7	3.9	3.2	2.0	1.0	0.5
Right of use	0.1	0.3	0.2	0.2	0.1	0.1
Deferred tax assets	0.5	0.7	1.3	1.3	1.3	1.3
Non current assets	4.5	5.1	5.0	3.8	2.8	2.3
Assets	10.7	16.0	21.4	18.3	17.6	18.1
Trade and other payables	2.1	1.9	2.8	3.4	4.9	6.7
Provisions	0.2	0.4	0.5	0.5	0.5	0.5
Borrowings & leases	0.1	0.2	0.0	2.6	4.4	0.0
Income tax liability	0.0	0.1	0.1	0.1	0.1	0.1
Current liabilities	2.4	2.6	3.4	6.6	9.9	7.3
Borrowings	0.0	4.1	5.3	3.6	0.1	1.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	0.0	4.1	5.3	3.6	0.1	1.0
Total liabilities	2.4	6.7	8.7	10.2	10.0	8.3
Issued shares	16.1	18.7	28.2	28.2	28.7	29.2
Reserve options	6.2	6.4	6.6	6.6	6.6	6.6
Accumulated losses	(14.0)	(15.8)	(22.1)	(26.7)	(27.7)	(25.9)
Total equity	8.3	9.4	12.7	8.1	7.6	9.8

Directors and Key Management Personnel

	Shares	Holding
Georg Chmiel	0.0m	0.0%
Mark Fortunatow	17.3m	8.0%
Martin Pretty	0.2m	0.1%
Brandon Gien	0.1m	0.1%
Saurabh Jain	0.0m	0.0%
Michael Rann	0.0m	0.0%

Major Shareholders

	Shares	Holding
Regal	26.2m	11.9%
Thorney Investment Group	17.9m	8.1%
Mark Fortunatow	17.3m	7.9%
Top 20 shareholders	69.8m	31.7%

Source: Company data, Veritas Securities estimates.

Valuation Metrics

		Valuation
Price Target (ps)		\$0.22 312%
Share Price (ps)		\$0.054
FY22E EV/Sales (x)		0.6
Implied FY22 EV/Sales (x)		2.3 318%
Implied FY23 EV/Sales (x)		1.9 249%
Market Capitalisation (A\$m)		11.7
Enterprise Value (A\$m)		11.5
Shares in issue (m)		217.6

Valuation Multiples

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June						
P/E (x)	N/A	N/A	N/A	N/A	N/A	7.4
Price/Cash Flow (x)	8.1	N/A	N/A	N/A	N/A	6.0 2.7
EV/Revenue (x)	1.1	0.8	0.6	0.5	0.4	0.3
EV/EBITDA (x)	N/A	15.8	N/A	N/A	N/A	6.5 2.3
EV/EBIT (x)	N/A	N/A	N/A	N/A	N/A	N/A 3.6
Equity FCF yield (%)	-18.8	-36.0	-80.3	-21.4	9.2	32.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	2.2	1.2	0.9	1.0	1.0	1.1
Price to book value (x)	0.9	1.0	0.9	1.6	1.7	1.3

Per Share Data

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
EPS diluted - adjusted (cps)	(3.03)	(1.01)	(2.97)	(1.96)	(0.43)	0.73
EPS diluted (cps)	(3.03)	(1.01)	(2.97)	(1.96)	(0.43)	0.73
Cash flow per share (cps)	0.7	(0.7)	(3.1)	(0.2)	0.9	2.0
Free cash flow per share (cps)	(1.6)	(2.4)	(4.5)	(1.1)	0.5	1.6
Cash (cps)	2.2	2.4	2.6	1.2	0.5	0.1
Net assets (cps)	5.9	5.3	6.0	3.4	3.2	4.2
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)	138	164	193	218	218	218
Shares on issue - avg. diluted (m)	141	175	211	236	236	236

Segmental Revenue (A\$m)

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
App and SIMARR	1.5	2.8	3.9	6.7	9.1	11.9
App and SIM revenue	1.2	2.2	3.3	5.8	7.9	10.5
Device revenue	6.5	10.6	15.0	16.7	22.2	27.8
SpaceTalk revenue	7.7	12.8	18.3	22.5	30.1	38.3
MGM schools revenue	2.7	2.2	2.3	2.3	2.3	2.3
Trading revenue	10.4	15.0	20.5	24.7	32.4	40.5
Grants & other income	0.1	0.1	0.1	0.0	0.0	0.0
Revenue	10.5	15.1	20.7	24.7	32.4	40.5

Segmental Revenue Growth (% YoY)

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
App ARR growth	87.5	86.7	39.0	73.2	35.4	30.6
App revenue growth	180.0	79.3	53.8	76.2	36.1	32.6
Device revenue growth	53.8	63.8	41.4	11.1	33.3	25.0
Spacetalk revenue growth	65.4	66.2	43.5	22.9	34.1	27.0
MGM schools revenue growth	25.1	(18.1)	0.2	0.0	0.0	0.0
Trading revenue growth	52.5	44.0	37.0	20.4	31.0	25.1
Revenue growth	46.8	44.2	36.6	19.7	31.0	25.1

Performance Ratios (%)

	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Year ended June 30						
Gross margin	70.9	61.9	59.5	60.1	59.5	59.4
EBITDA margin	(25.6)	4.8	(14.3)	(8.1)	5.5	12.3
Gross debt inc. leases (\$ m)	0.1	4.2	5.3	6.2	4.5	1.0
Net cash/(debt) (\$ m)	3.0	(0.1)	0.2	(3.4)	(3.4)	(0.7)
Gearing (net debt/(cash): capital)	(57.3)	0.6	(1.9)	29.5	31.1	6.8
Fixed charge cover	N/A	N/A	N/A	N/A	N/A	3.2
Return on capital	N/A	N/A	N/A	N/A	N/A	21.7

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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