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Research
Company Update

Date:	20 July 2016
Recommendation:	**BUY**
Valuation:	**$0.68**

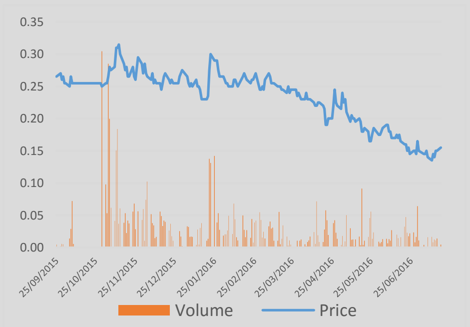
Company Information

Code	CM8
Last Price	A$0.15
Shares on Issue	157.3m
Market Capitalisation	$22.8m
Daily Volume	0.1m

Financial Summary

	FY15a	FY16e	FY17e	FY18e
Revenue ($m)	12.98	36.14	53.61	59.44
EBITDA ($m)	(2.75)	7.26	14.25	15.89
D&A ($m)	(0.41)	(5.39)	(3.77)	(2.64)
EBIT ($m)	(3.16)	1.88	10.48	13.25
Net Interest ($m)	(0.09)	(1.81)	(1.52)	(0.70)
Income Tax ($m)	(0.70)	(0.01)	(2.69)	(3.76)
Reported NPAT ($m)	(3.96)	0.06	6.27	8.78
Normalised NPAT ($m)	(3.96)	2.25	6.27	8.78
EPS Reported (¢)	(0.05)	0.00	0.04	0.06
EPS growth (%)	na	na	11241%	40%
DPS (¢)	0.0	0.0	0.0	0.0
Cash ($m)	1.76	2.76	7.88	4.79
Net debt ($m)	(1.76)	15.55	10.18	(1.03)
Net debt / equity (%)	na	100.3%	46.7%	-3.4%
ROE (%)	na	0.4%	28.8%	28.7%
ROA (%)	na	4.1%	18.4%	24.9%
NTA per share (¢)	0.03	0.07	0.10	0.15
PE (x)	na	412.3	3.64	2.60
EV/EBITDA (x)	na	6.30	2.84	1.84

Share Price Performance



Source: Factset

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Crowd Mobile (CM8): CM8 Debt Refinance

Summary Key Points

CM8 in our view is an undervalued stock with a global footprint: We believe that CM8 is a relatively inexpensive entry into the developing mobile commerce space because CM8 is a cash flow positive mobile e provider with an extensive global footprint and m-commerce platform. Due to its recent acquisition of a global content business, CM8's balance sheet is stretched and while this does present some short term challenges we are of the opinion that this will improve over time as the company pays down the debt from primarily operational cash flow.

CM8 refinances its term debt: CM8 has announced that it has refinanced its debt at a much more competitive interest rate via a New York based fund. CM8 will now be paying a base rate of 6.25% interest vs the 12% interest it was paying on its original debt facility. CM8 is expecting the initial drawdown to be €8.55m ($12.76m) which will be used to retire the existing expensive senior debt and provide extra working capital for the company.

CM8 has new repayment terms: CM8 intends to repay principal and interest but can elect to repay via either cash or shares. While CM8 intends to repay all of the principal in cash but there is a possibility CM8 will partly pay a portion of the principal in equity which will improve cash flow metrics and bolster working capital but will be dilutive for shareholders. The repayment of principal does however mean that CM8's balance sheet will strengthen on an ongoing basis.

Track vendors have extended their consulting agreements and extended the final vendor finance bullet payment by a year: The vendors of Track have agreed to extend their final bullet payment to October 2017 which will allow CM8 to put its cash resources towards working capital which will help drive revenue growth. The Track vendors have also agreed to extend their consulting agreements until the end of the year which is a positive as CM8 continues to integrate the original CM8 business with the Track business.

CM8 has a healthy cash balance and headroom to drawdown further from the facility to increase available working capital: On the 29th June CM8 paid €2.5m ($3.73m) to the Track vendors as the final part of the earn out payment. Post the initial drawdown of the new debt facility and the recent payment of the earn-out to Track vendors, CM8 will have $5m in cash and a further undrawn $3.3m available.

We have reduced our normalised EBITDA forecast 2016 to $7.26m from $8.5m for 2016: This is due to a strengthening Euro and to take into account Track is performing at the lower end of managements expectations. The Q and A is however performing well and we expect the contribution of this business to increase into FY17 and beyond.

Recommendation

We value CM8 at **$0.68** share and maintain a **Buy Recommendation**. We use a combined DCF and EV/EBITDA valuation methodology to value CM8. We have reduced our valuation for CM8 from $0.85 due to the impact of the near term debt payments and slightly lower growth expectations for the Track business in the future. We do however believe that CM8 offers value at these levels considering the reducing debt burden and the demonstrated strong cash flow generation capability. CM8 also has an established global footprint and expanding product set that will generate revenues from new products offering more professional services.

Investment Points

CM8 in our view is an undervalued stock with a global footprint: We believe that CM8 is a relatively inexpensive entry into the developing mobile commerce space because CM8 is a cash flow positive mobile e provider with an extensive global footprint and m-commerce platform. Due to its recent acquisition of a global content business, CM8's balance sheet is stretched and while this does present some short term challenges we of the opinion that this will improve over time as the company pays down the debt from primarily operational cash flow.

CM8 refinances its term debt: CM8 have announced that it has refinanced its debt at a much more competitive interest rate via a New York based fund. CM8 will now be paying a base rate of 6.25% interest vs the 12% interest it was paying on its original debt facility. The facility is also denominated in Euro which acts as a natural hedge as the bulk of CM8's earnings are in Euros. CM8 is expecting the initial drawdown to be €8.55m ($12.76m) which will be used to retire the existing expensive senior debt and provide extra working capital for the company. CM8 will have access to a further €2.25m ($3.3m) to draw down upon going forward. Access to additional funding will give CM8 greater financial flexibility which will help it manage its relatively long working capital cycle more effectively. The funding agreement is subject to minimum cash reserve covenants and EBITDA covenants.

CM8 has new repayment terms: CM8 intends to repay principal and interest but can elect to repay via either cash or shares. Thanks to the new funding arrangements CM8 will be debt free in 30 months, or possibly less. The repayment of principal and interest will mean that CM8 debt to equity ratio will be improving on an ongoing basis as the overall debt burden is reduced. Due to the fact CM8 is paying off the principal, it will have to devote a larger portion of its free cash flow for this but it has the flexibility to repay the lender with shares. CM8 have stated that it intends to repay the principal in cash thereby reducing the dilution to shareholders. On the other hand, if the cash payments are putting a constraint on the operational cash flow, CM8 can elect to switch part or all of the principal payment to equity for that payment. This will also give CM8 flexibility to be will be respond to market conditions and not be locked into devoting cash to debt repayments thereby forgoing investment in new business opportunities. The focus on repaying debt will help to focus management on running the business as efficiently as possible to repay the debt as fast as possible.

The downside to issuing shares is that the lender can then sell the issued stock in the market subject to certain restrictions to prevent the overselling of the stock. The ongoing ratio of cash to shares of the repayments will be an important metric to track and an overreliance on paying back the loan as stock may put pressure on the share price.

A key positive of this arrangement is that CM8 will be strengthening its balance sheet on a monthly basis as it pays down the overall debt. Thanks to the Track acquisition, CM8's balance sheet is currently stretched but over the next 20 to 30 months the debt will be completely paid back which coupled with its healthy cash flow will completely de-risk the business.

The lender can also elect to convert part or all the debt into equity at a 30% premium to the prevailing share price at the EGM which is scheduled for the 1st August 2016.

Track vendors have extended their consulting agreements and extended the final vendor finance bullet payment by a year: The vendors of Track have agreed to extend their final bullet payment to October 2017 which will allow CM8 to put its cash resources towards working capital which will help drive revenue growth. The Track vendors have also agreed to extend their consulting agreements until the end of the year which is a positive as CM8 continues to integrate the original CM8 business with the Track business. The Track vendors are 10% shareholders of CM8 excluding options which makes them aligned with the business.

CM8 has a healthy cash balance and headroom to drawdown further from the facility to increase available working capital: On the 29th of June CM8 paid €2.5m ($3.73m) to the Track vendors as part of the earn out payment. Post the initial drawdown of the new debt facility and the recent payment of the earn-out to Track vendors, CM8 will have $5m in cash and a further undrawn $3.3m available. A key part of the CM8 business model is that it engages in extensive digital marketing to attract customers. This strategy has proven to be successful and CM8 earns a healthy return on every dollar spent on marketing but the Telecommunications companies who collect the fees and revenue share with CM8 can take up to 6 months to pay CM8 their money which results in a long working capital cycle albeit with zero bad debts. By having additional funds on hand will allow CM8 to ramp up its revenues as it will be able to dedicate more money to the marketing of its products to its customers around the world. Additional working capital will also allow CM8 to grow its product repertoire and enter new markets.

CM8 is well positioned to take advantage of three global emerging mobile themes: There are three emerging Marco tailwinds that will help drive growth in the CM8 business going forward:

1. ***Mobile first:*** The penetration of smartphones across the globe is very high thanks to the proliferation of cheap Android devices. As a result people are spending more and more time on their phones and less time on other digital mediums such as TV, radio and the internet via a computer. The mobile device is becoming the primary gateway to online services and entertainment.

2. ***Global Distributed workforce:*** The nature of work is changing around the globe which has been partly driven by changes in technologies. The application of technology has broken down geographical barriers enabling people to perform work remotely as opposed to being tied to a specific location. The rise of platforms such as Freelancer, 99designs and CrowdSource have allowed for clients and workers to come together and transact on a common market place. CM8 have developed a sophisticated micro job platform that has created a marketplace for small or micro jobs that take a relatively small time to complete and to collect micro payments for these jobs. The application of technology has made this efficient and cost effective.

3. ***Demand for personalisation:*** Many of the services offered on the internet are automated and are not customised to a user's personal circumstances. People are increasingly looking for the personalisation of services that have been specifically developed for them. CM8 believes that they are well positioned to take advantage of this growing need as its platform can offer personalised services in a cost effective and timely manner.

CM8 is in the process of bedding down Track business: CM8 is still in the process of bedding down and integrating the Track business into the CM8 business. This process is ongoing but we expect that more and more synergies will begin to be unlocked between the two businesses. The management team has largely relocated to the Netherlands to make sure maximum value can be extracted from the merger. CM8 is connected to the Apple Store, Google Play and 160 telecommunications firms across its key markets. The M-Payments platform that CM8 has brings together its Track and Q and A business which enables it to transact with customers in over 50 countries and multiple languages. The Q and A business continues to perform well and the Track business delivering strong cash flow but is at the lower end of management expectations. However, CM8 are confident that as time goes on this will improve as the Track and original CM8 businesses become more integrated.

We have reduced our normalised EBITDA forecast 2016 to $7.26m from $8.5m for 2016: This is due to a strengthening Euro and to take into account Track is performing at the lower end of management's expectations. The Q and A is however performing well and we expect the contribution of this business to increase into FY17 and beyond.

CM8 has improved its net debt position by $3.5m over the last 6 months from positive free cash flow. At the end of 1HFY16 the Net Debt was $18.5m and according to CM8 at the 30th of June 2016 Net Debt stood at $15m.

Catalysts

Expand into new markets: CM8 have already made some key announcements about expanding into South America and Asia. The financing flexibility that has been introduced via the new debt arrangements will help CM8 devote more working capital towards geographical and product expansion.

The launching of new Q & A products: CM8 is working on a number of new Q & A products that will expand its product portfolio which will also open up new markets in the professional advice area.

Expanding e-commerce opportunities: CM8 are working on potentially linking an e-commerce solution to the answers of certain questions that recommend and endorse specific products for an affiliate fee.

Further acquisitions: CM8 are currently working to bed down the Track acquisition and once this is complete it is possible that it will look for other complimentary businesses to add to its platform.

Valuation and Recommendation

We value CM8 at **$0.68** share and maintain a **Buy Recommendation**. We use a combined DCF and EV/EBITDA valuation methodology to value CM8. We have reduced our valuation for CM8 from $0.85 due to the impact of the near term debt payments and slightly lower growth expectations for the Track business in the future. We do however believe that CM8 offers value at these levels considering the reducing debt burden and the demonstrated strong cash flow generation capability. CM8 also has an established global footprint and expanding product set that will generate revenues from new products offering more professional services.

Crowd Mobile (CM8.ASX)

Current Shares on Issue	**157.3m**	**Date**	**20 July 2016**
Diluted Shares on issue	**195.0m**	**Share Price**	**$0.15/share**
Market Capitalisation	**$22.8m**	**Valuation**	**$0.68/share**
Year End	**30-June**		

Equity Valuation, Return

Equity Valuation	**A$/share**
Value of the Firm	**0.68**
Return	**367%**
WACC	13.3%
Shares on Issue	
Issued Shares (End of Period)	157
Options on Issue	34
Diluted Shares incl options	195

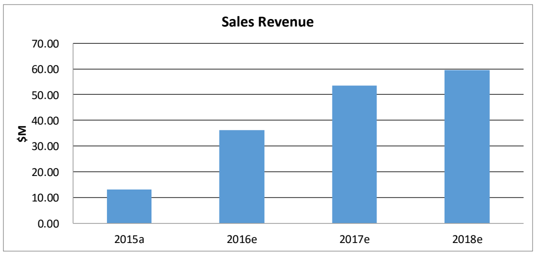
Profitability

Key Metrics	**2015a**	**2016e**	**2017e**	**2018e**
Revenue Growth	32%	178%	48%	11%
EBIT Growth (Adj)	(292%)	(364%)	96%	12%
NPAT Growth (Adj)	(476%)	(159%)	458%	26%
EBITDA Margin (Adj)	(21%)	20%	27%	27%
EBIT Margin (Adj)	(24%)	5%	20%	22%
EPS - Reported	(0.05)	0.00	0.04	0.06
EPS - Fully Diluted Adjusted	(0.05)	0.00	0.03	0.04
EPS Growth	na	na	11,241%	40%
Effective Tax Rate	-22%	15%	30%	30%

Financial Ratios

Earnings & Cash Flow Multiples (A$)	**2015a**	**2016e**	**2017e**	**2018e**
EPS	(0.05)	0.00	0.04	0.06
EPS Growth	na	na	11,241%	40%
P/E	na	412.33x	3.64x	2.60x
EV/EBIT	na	24.40x	3.86x	2.20x
EV/EBITDA	na	6.30x	2.84x	1.84x

Balance Sheet	**2015a**	**2016e**	**2017e**	**2018e**
Gearing (Debt/Equity)	9.0%	118.1%	82.9%	12.3%
Gearing (Net Debt/Equity)	-66.3%	100.3%	46.7%	-3.4%
EBIT Interest Cover	-34.5x	1.0x	6.9x	18.8x
ROE	(148.9%)	0.4%	28.8%	28.7%
ROA	(43.8%)	4.1%	18.4%	24.9%
NTA Per Share	0.03¢	0.07¢	0.10¢	0.15¢



Income Statement

Full Year Summary (A$m)	**2015a**	**2016e**	**2017e**	**2018e**
Sales Revenue	12.98	36.14	53.61	59.44
EBITDA	**(2.75)**	**7.26**	**14.25**	**15.89**
Depreciation & Amortisation	(0.41)	(5.39)	(3.77)	(2.64)
EBIT	**(3.16)**	**1.88**	**10.48**	**13.25**
Net Interest Expense	(0.09)	(1.81)	(1.52)	(0.70)
Profit Before Tax	**(3.26)**	**0.07**	**8.96**	**12.54**
Income Tax Expense	(0.70)	(0.01)	(2.69)	(3.76)
Underlying NPAT	**(3.96)**	**0.06**	**6.27**	**8.78**
Abnormal Items	0.00	0.00	0.00	0.00
Minority Interests	0.00	0.00	0.00	0.00
Reported NPAT	**(3.96)**	**0.06**	**6.27**	**8.78**
Normalised Earnings	**(3.96)**	**2.25**	**6.27**	**8.78**

Cash Flow Statement

Full Year Summary (A$m)	**2015a**	**2016e**	**2017e**	**2018e**
EBITDA	(2.75)	7.26	14.25	15.89
Other Items	0.00	0.00	0.00	0.00
Operating Cash Flow	**(3.81)**	**8.13**	**9.59**	**11.21**
Capital Expenditure	0.03	0.00	0.00	0.00
Other	0.00	(41.94)	0.00	0.00
Free Cash Flow	**(0.92)**	**(33.82)**	**9.59**	**11.21**
Equity Raised	2.67	12.80	0.00	0.00
Dividends Paid	0.00	0.00	0.00	0.00
Inc/(Dec) in Borrowings	0.00	26.78	(4.47)	(14.30)
Financing Cash Flow	**2.67**	**39.58**	**(4.47)**	**(14.30)**
Effects of Exchange Rates	0.00	0.00	0.00	0.00
Movement in Net Cash	**(2.06)**	**5.76**	**5.12**	**(3.09)**

Balance Sheet

Full Year Summary (A$m)	**2015a**	**2016e**	**2017e**	**2018e**
Cash	1.76	2.76	7.88	4.79
Current Assets	5.52	21.10	36.12	35.03
Total Assets	**7.23**	**45.39**	**56.82**	**53.15**
Debt	0.24	18.31	18.06	3.76
Other Liabilities	0.00	1.81	2.68	2.97
Total Liabilities	**4.57**	**29.88**	**35.04**	**22.58**
Total Shareholders' Equity	**2.66**	**15.51**	**21.79**	**30.57**

Dividends	**2015a**	**2016e**	**2017e**	**2018e**
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

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Disclosure Disclaimer **RCAN1348**

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The Author of this report made contact with in **Crowd Mobile Ltd.** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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Recommendation Definitions

SPECULATIVE BUY – 10% out-performance, but high risk
BUY – 10% or more out-performance
ACCUMULATE – 10% or more out-performance, buy on share price weakness
HOLD – 10% underperformance to 10% over performance
SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months. Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries Index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.