

Syntonic Limited (ASX:SYT)

Re-engineering the mobile internet

22 February 2018

Syntonic Limited's (ASX: SYT) **Freeway services** (sponsored data and unlimited content plans) is gaining traction, with the installed base increasing to [27.3m as at end-January 2018](#). In the last quarter of 2017, SYT announced partnerships in China, Vietnam, Turkey, sub-Saharan Africa and Mexico. These partnerships could increase Freeway's smartphone addressable audience in 2018 by +800m. In addition, SYT is enhancing the Freeway service for sponsored international data roaming. On the back of additional partnerships and carrier integrations, SYT is targeting 25% QoQ growth in the Freeway installed base in 2018.

Importantly, the group's 2018 Business Objectives indicate that SYT is renewing commercialisation of its B2B service - **DataFlex**. SYT states that it has received significant interest in the mobile split billing application, has started resourcing the business with a sales team, and is targeting to have first revenue generating agreements in place by the end of the March 2018 quarter.

Forecast revenue profile

SYT expects that Freeway installed end-points will become increasingly monetizable as activation and engagement grows, and is targeting a device royalty ranging from 1 to 10 US cents per monthly activated device service. Predicated on our forecast installed base profile, activation rates, and average royalty rate of US\$5c per month, we forecast Freeway revenues increasing from A\$1.9m in FY18E to A\$7.8m in FY19E, and A\$72m in FY25E. We forecast DataFlex revenues growing from zero in FY18E to A\$1.7m in FY19E, and A\$75m in FY25E.

Risk-weighted NPV: A\$0.05 per diluted share

Our estimated NPV₁₀ (un-risked) for SYT is A\$260m or 9c per fully-diluted share. Attaching a 50% discount for forecast risk (lack of visibility on timing and quantum of sales revenue, margin, capex), we calculate a risked NPV target price of A\$130m or 4.5c per fully-diluted share.

At current share price levels of 1.5c, we calculate that SYT offers significant upside potential for speculative investors as the group monetises its mobile technology services. **We initiate coverage with a Speculative Buy (Higher Risk) recommendation**

Key Financials

Year-end June	FY17A	FY18E	FY19E	FY20E	FY21E
Freeway base (m units)	nc	26	65	155	200
Unit selling price (US\$c pm)	nc	4.80	5.00	5.00	5.00
Freeway revenue (US\$m)	nc	1.5	5.8	18.5	30.0
DataFlex revenue (US\$m)	nc	-	1.3	5.1	20.8
Group revenue (US\$m)	0.8	1.5	7.1	23.6	50.8
AUD/USD exchange rate	nc	0.78	0.75	0.75	0.75
Group revenue (A\$m)	0.8	1.9	9.4	31.5	67.7
Normalised NPAT (A\$m)	(25.8)	(4.3)	(2.3)	3.9	15.0
EPS Reported (A\$c)	(1.0)	(0.1)	(0.1)	0.1	0.5
EPS Normalised (A\$c)	(1.0)	(0.1)	(0.1)	0.1	0.5
DPS (A\$c)	-	-	-	-	0.3
PER (x)	na	na	na	11.3	2.9
Net (debt) / cash (A\$m)	4.9	3.6	(0.1)	2.8	10.2
Cash flow (A\$m)	4.8	(1.3)	1.3	2.9	2.4
Capex (A\$m)	(3.8)	(2.0)	(2.0)	(2.0)	(2.0)

Source: IRESS, Company Data, State One Stockbroking. Share price: \$ 0.015 Feb 21, 2018

Share Price: 1.5c

Target Price: 4.5c

Recommendation
Speculative Buy

Risk Assessment
Higher

Information Technology

David Brennan, CFA

Senior Investment Analyst

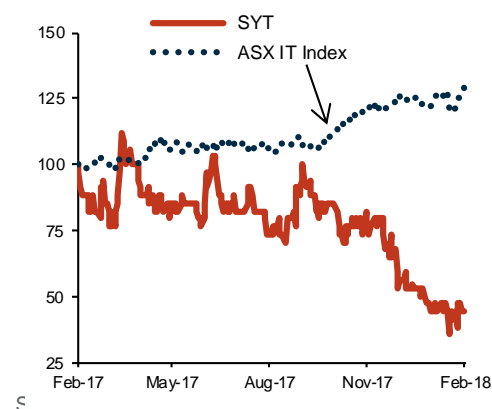
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Syntonic Limited

ASX Code	SYT
52 week range (A\$cps)	1.2 – 4.0
Fully diluted Market Cap (A\$m)	44
Fully diluted no. of shares (m)	2,939
Av Daily Turnover (shares)	5.2 million
ASX All Ordinaries	6,0440
FY18E BV per share (A\$c)	0.2
FY18E EPS (A\$c)	-0.1
FY18E Net (Debt)/Cash (A\$m)	3.6

Relative price performance



Financial Statements

Syntonic Limited

Year ending June

Profit & Loss Statement (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	0.8	1.9	9.4	31.5	67.7
Raw materials / rental / lease	(0.4)	(1.0)	(4.7)	(15.8)	(33.9)
Employee	(3.3)	(3.5)	(5.0)	(7.5)	(10.0)
Other	(1.0)	(1.2)	(1.5)	(2.0)	(2.0)
EBITDA	(3.9)	(3.7)	(1.8)	6.3	21.9
Depreciation & Amortisation	0.0	(0.5)	(0.5)	(0.5)	(0.5)
Operating profit	(3.9)	(4.2)	(2.3)	5.8	21.4
Special / NOI	(21.9)	(0.2)	0.0	0.0	0.0
EBIT	(25.8)	(4.4)	(2.3)	5.8	21.4
Interest income	0.1	0.1	0.1	0.1	0.2
Interest expense	(0.0)	0.0	(0.2)	(0.3)	(0.2)
Tax expense	0.0	0.0	0.0	(1.7)	(6)
Reported NPAT	(25.8)	(4.3)	(2.3)	3.9	15.0
Normalised NPAT	(25.8)	(4.3)	(2.3)	3.9	15.0
EBITDA Margin (%)	na	na	-19%	20%	32%
Operating profit margin (%)	na	na	-24%	18%	32%
EPS Reported - Diluted (A\$)	(1.0)	(0.1)	(0.1)	0.1	0.5
EPS Normalised - Diluted (A\$)	(1.0)	(0.1)	(0.1)	0.1	0.5
EPS growth (%)	nm	nm	nm	nm	n/a
DPS - Declared (A\$)	0.0	0.0	0.0	0.0	0.3
Avg. no. of shares (m)	2,181	2,564	2,856	2,939	2,939
YE no. of fully-diluted shares (m)	2,689	2,939	2,939	2,939	2,939

Cash Flow Statement (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	(3.9)	(3.7)	(1.8)	6.3	21.9
Investment in working capital	(0.2)	(0.5)	0.1	0.5	1.4
Tax expense	0.0	0.0	0.0	(1.7)	(6.4)
Operating Cash Flow	(4.1)	(4.2)	(1.7)	5.1	16.8
Capex	(3.8)	(2.0)	(2.0)	(2.0)	(2.0)
Other investments	(0.4)	0.0	0.0	0.0	0.0
Investing Cash Flow	(4.2)	(2.0)	(2.0)	(2.0)	(2.0)
Net interest received / (paid)	0.1	0.1	(0.1)	(0.2)	0.1
Debt draw down / (repayment)	(3.7)	0.0	5.0	0.0	(5.0)
Dividends paid	0.0	0.0	0.0	0.0	(7.5)
Equity raised / (repaid)	34.9	5.0	0.0	0.0	0.0
Financing Cash Flow	31.2	5.1	4.9	(0.2)	(12.4)
Royalties & Other	(18.2)	(0.2)	0.0	0.0	0.0
Inc/(Dec) in Cash	4.8	(1.3)	1.3	2.9	2.4

Balance Sheet (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	4.9	3.6	4.9	7.8	10.2
Receivables	0.1	0.2	0.8	2.5	4.7
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE	0.0	1.5	3.0	4.5	6.0
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
Total Assets	5.4	5.7	9.1	15.2	21.4
Payables and other current Liabilities	0.6	0.2	0.9	3.2	6.8
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	5.0	5.0	0.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.6	0.2	5.9	8.2	6.8
Total Equity	4.8	5.5	3.2	7.1	14.6
Net Cash/(Debt)	4.9	3.6	(0.1)	2.8	10.2

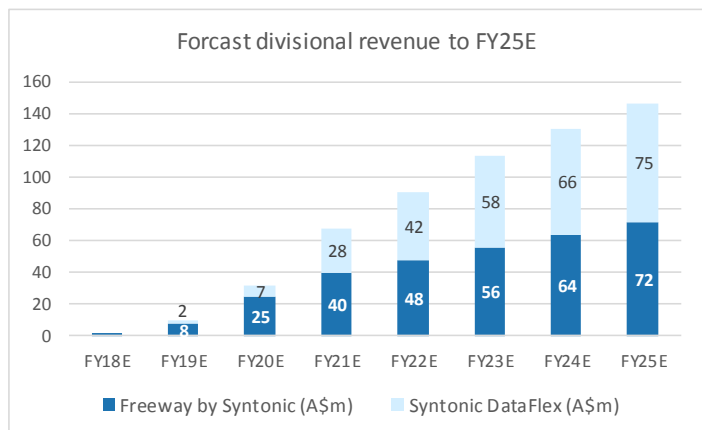
Substantial Shareholders	%	Date
Gary Greenbaum	19.4	
Rahul Agarwal	19.4	Sep-17
BNP Paribas Nominees Pty Ltd	2.2	

Source: Company, IRESS, State One Stockbroking forecasts

Freeway by Syntonic	FY17A	FY18E	FY19E	FY20E	FY21E
Freeway installations (million units)	nc	26	65	155	200
Percentage installations activated	nc	10%	15%	20%	25%
Activated units (million)	nc	3	10	31	50
Revenue per unit per month (US\$)	nc	4.80	5.00	5.00	5.00
Revenue (US\$m)	nc	1.5	5.8	18.5	30.0
AUD/USD exchange rate	nc	0.78	0.75	0.75	0.75
Revenue (A\$m)	0.8	1.9	7.8	24.7	40.0

DataFlex	FY17A	FY18E	FY19E	FY20E	FY21E
Addressable market (US only)	nc	100,000	100,000	100,000	100,000
% contracted to DataFlex	nc	0.0%	0.03%	0.10%	0.40%
Number contracted to DataFlex	nc	-	25	100	400
Average annual contract (US\$)	nc	50,000	50,000	51,000	52,000
Revenue (US\$m)	nc	-	1.3	5.1	20.8
AUD/USD exchange rate	nc	0.78	0.75	0.75	0.75
Revenue (A\$m)	-	-	1.7	6.8	27.7

Group revenue (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Freeway by Syntonic	0.8	1.9	7.8	24.7	40.0
DataFlex	-	-	1.7	6.8	27.7
Group	0.8	1.9	9.4	31.5	67.7



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	cash	cash	-4%	cash	cash
Gearing (ND/ND+E)	cash	cash	-2%	cash	cash
Interest Cover (x)	na	na	-40.6	33.2	na

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E	na	na	na	11.3	2.9
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$)	0.2	0.2	0.1	0.2	0.5
EV/EBITDA	na	na	na	na	na
ROE (%)	-534%	-78%	-74%	55%	103%

NPV valuation	A\$m	A\$cps
Equity value (unrisked)	260	9
<i>Risk weighting (timing, sales, pricing, etc)</i>	50%	
Equity value (risked)	130	4.5

Note: fully diluted no. of shares (million) 2,939

Company description: Founded in 2013, Syntonic is a Seattle-based software company which has developed two mobile technology services: Freeway by Syntonic, which allows customers unlimited mobile access to content supported by subscription and sponsorship, and Syntonic DataFlex, which enables businesses to split mobile phone bills between work and personal use.

Valuation

NPV valuation

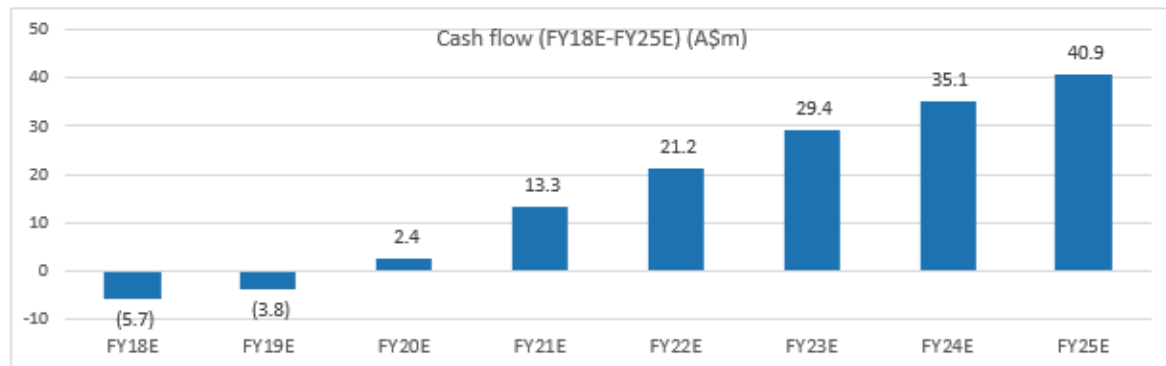
Our estimated NPV value (un-risked) for SYT is A\$260m. Attaching a 50% risk discount (timing of sales at Freeway / DataFlex, margins, financing), our risk-weighted valuation is A\$130m (4.5c per fully diluted share).

Recommendation:

Speculative Buy
(Higher risk)

Figure 1: SOTP valuation

	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Group revenue (A\$m)	2.0	9.4	31.5	67.7	90.4	113.6	130.0	146.7
COGS sold (A\$m)	(1.0)	(4.7)	(15.8)	(33.9)	(45.2)	(56.8)	(65.0)	(73.3)
Marketing/R&D/Staff (A\$m)	(3.5)	(5.0)	(7.5)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Other (A\$m)	(1.2)	(1.5)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Total costs (A\$m)	(5.7)	(11.2)	(25.3)	(45.9)	(57.2)	(68.8)	(77.0)	(85.3)
PBT (A\$m)	(3.7)	(1.8)	6.3	21.9	33.2	44.8	53.0	61.3
Tax (A\$m)	-	-	(1.9)	(6.6)	(10.0)	(13.4)	(15.9)	(18.4)
PAT (A\$m)	(3.7)	(1.8)	4.4	15.3	23.2	31.4	37.1	42.9
Capex (A\$m)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Cash flow (A\$m)	(5.7)	(3.8)	2.4	13.3	21.2	29.4	35.1	40.9
Discount rate	10%							
NPV FY18-25E cash flows(A\$m)	69							
NPV of Perpetuity value (A\$m)	191							
Enterprise value (A\$m)	260							
FY19E Net cash / (debt) (A\$m)	(0.1)							
Equity value (A\$m)	260							
<i>Risk-weighting</i>	<i>50%</i>							
Equity value - risked (A\$m)	130							
<i>Fully diluted no. of shares (million)</i>	<i>2,939</i>							
Share value -risked (A\$cps)	4.5							



Source: State One Stockbroking forecasts

Note: COGS sold assumed at 50% of revenue; perpetuity value based on FY25E cash flow

Note: Predicated on our cash flow forecasts, we calculate that SYT will require some A\$5m in additional funding in FY19E. While this will most likely be sourced via an equity raising (as in December 2017), for modelling purposes (lack of visibility on share price/dilution) we assume this funding will be via debt facilities.

Recommendation and risks

At current share price levels, we calculate that SYT offers significant upside potential to our 4.5cps 12-month target price. **We initiate coverage on SYT with a Speculative Buy (Higher risk) recommendation.**

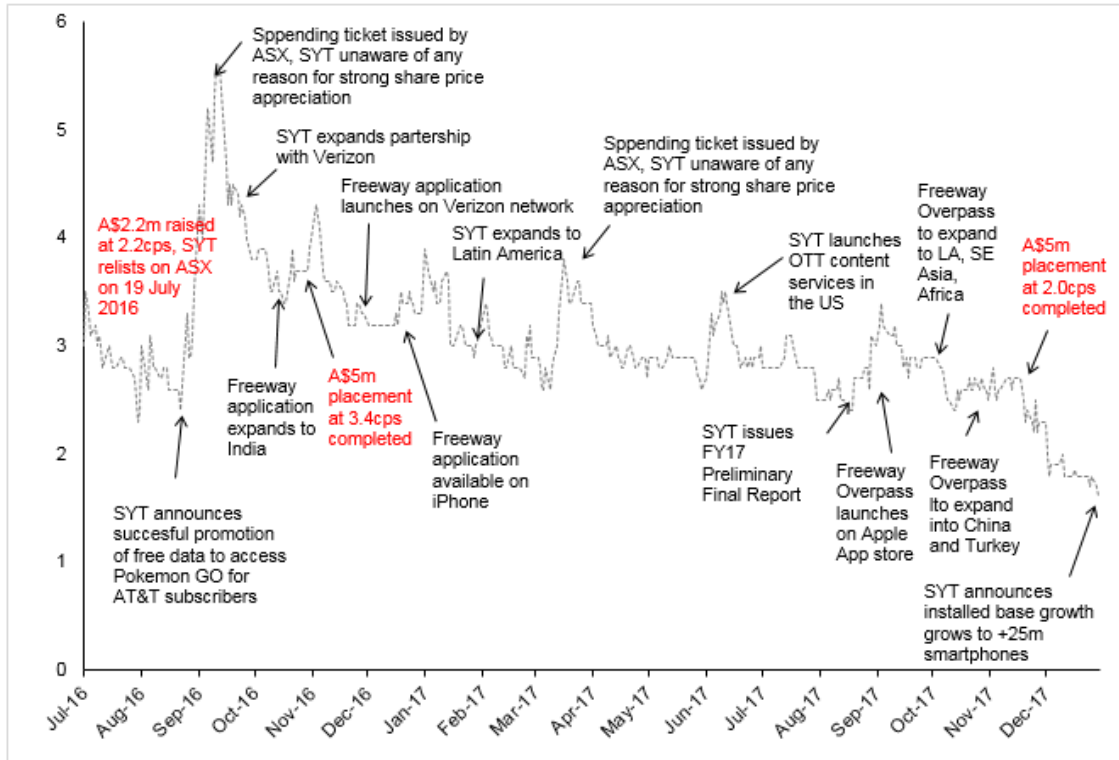
Risks to our earnings profile and target price include, but are not limited to:

On-boarding of channel partners, contract risk, attracting and retaining customers, timing of sales and revenues at Freeway (installed base/ activation rate, ARP) and DataFlex (no. of contracts, revenue per contract), competition and new technologies, service margins, net neutrality, key personnel, government legislation (tax, other).

Background

Syntonic Limited (ASX: SYT) listed on the ASX in July 2016 following a reverse takeover of Pacific Ore Limited (ASX: PSF, delisted), the acquisition of Seattle-based software company Syntonic, and the completion of a A\$2.2m IPO (at 2.2cps). The acquisition price for Syntonic was 1.2bn ordinary shares plus 500m performance shares (equivalent to A\$37.4m at the 2.2cps IPO price).

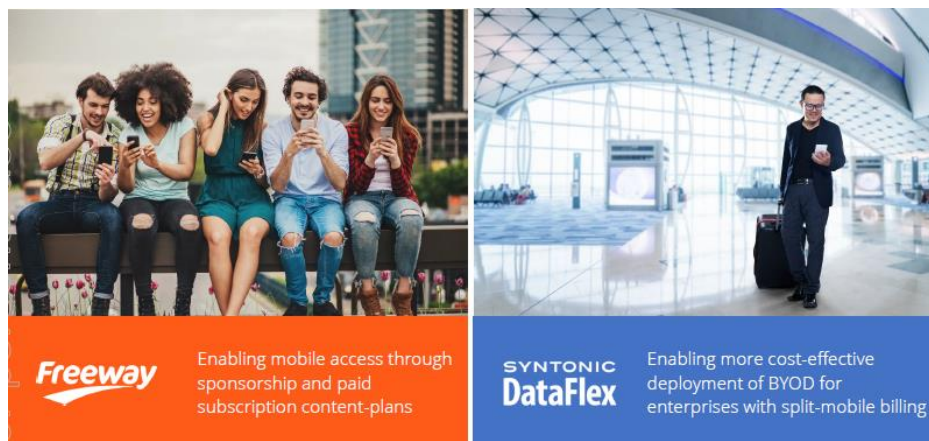
Figure 2: Share price history (A\$) and key events: July 2016-Present




Source: IRESS, Company, compiled by State One Stockbroking


Syntonic, founded in 2013, has developed two technology services: **Freeway by Syntonic**, an application (App) which allows consumers unlimited smartphone access to content and applications via subscription and/or data sponsors including advertisers and, **Syntonic DataFlex**, which allows businesses to manage split billing expenses for employees when using their personal mobile phones for work.

Figure 3: Product offerings





Freeway
Enabling mobile access through sponsorship and paid subscription content-plans



SYNTONIC DataFlex
Enabling more cost-effective deployment of BYOD for enterprises with split-mobile billing

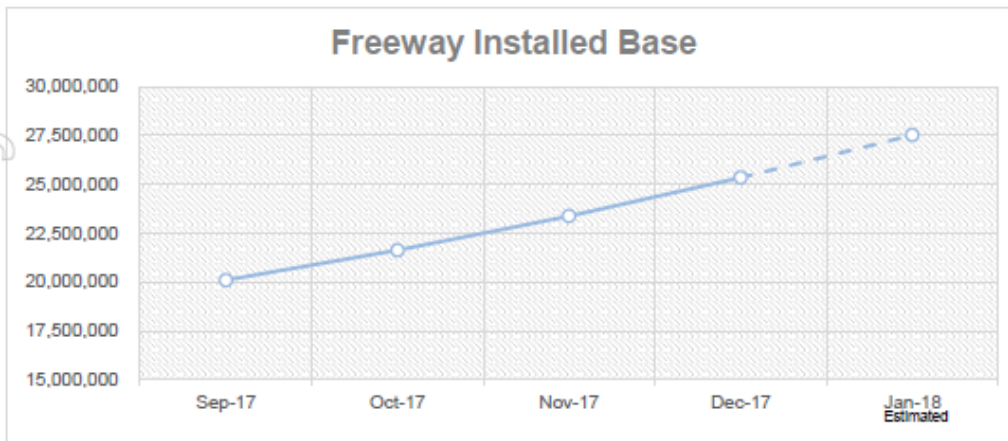
Source: Company

Freeway by Syntonic

On 19 February 2018, SYT announced that the Freeway App global installed base had increased month-on-month by 7.9% in January 2018 to 27.3m unique smartphones; this follows from an 8.4% MoM increase in December 2017. On a quarter-on-quarter basis, the installed base grew by 26.1%, exceeding the group’s 25% growth target. The installed base expansion was largely driven by successful integrations and rollout of the Freeway SDK (“Software Development Kit”) on two additional Android smartphones and ongoing US and regional downloads of the App.

Targeting 25% QOQ growth in 2018

Figure 4: Freeway installed base - monthly



Source: Company (January 2018)

Freeway’s global installed base is a key metric of near-term success for the group, with targeted marketing efforts driving increasing consumer adoption of SYT’s sponsored and unlimited data content plans. In 2018, SYT is targeting to significantly expand the Freeway offering into a number of Asian, South American, and Sub-Saharan African countries to achieve 25% quarter-on-quarter installed base growth.

Figure 5: Freeway targeted expansion by geography/market

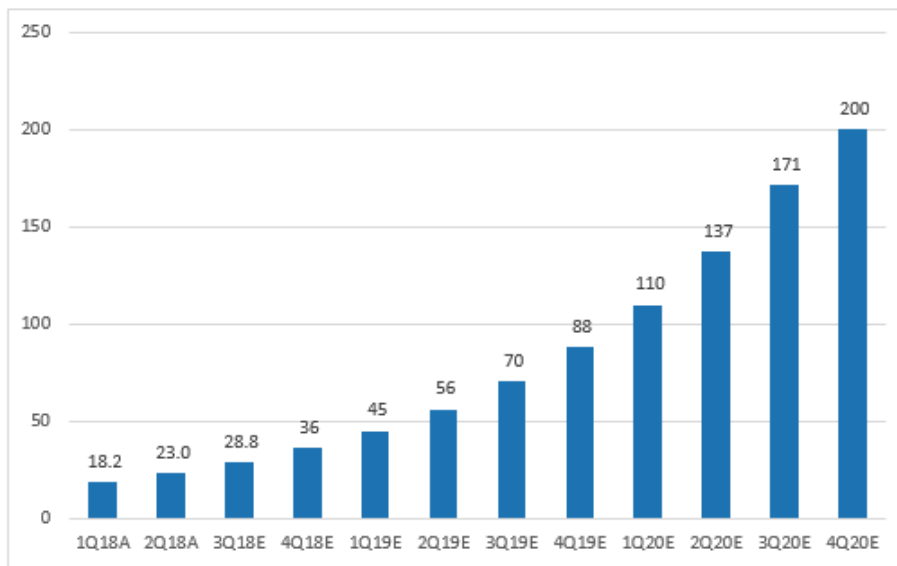


Source: Company

Forecast number of installations

Assuming an average December 2017 quarter (2Q FY18) installed base of 23m (approximating the disclosed installed base for the month of November 2017), SYT's targeted 25% Q-o-Q growth rate indicates a targeted March 2018 quarter (3Q FY18E) installed base of 28.8m. At a constant 25% growth rate, we calculate a potential installed base of 200m by 4Q FY20E. We believe our forecast ~200m installed base target by 4Q FY20E is not unrealistic bearing in mind the significant (950m+) addressable market (i.e., smartphone users) in China and India, the 300m addressable market in the US and Mexico, plus other significant markets in Asia, Sub-Saharan Africa, and the Middle East.

Figure 6: Freeway installed base – quarterly forecast to 4Q FY22E



Source: Company, State One Stockbroking forecasts

Note: 1Q FY18 and 2Q FY18 installed base of 18.3m and 23m are estimated by State One Stockbroking from monthly figures as disclosed by SYT

Forecast revenue

Over the past two years, SYT has developed a range of mobile content-subscriptions, pay-per-view including over-the-top (OTT), on-demand purchase, and ad-supported content offerings., entered into agreements with major telco carriers including Tata Communications, AT&T, and Verizon Wireless, and secured partnerships with some of the world's top game and content providers (i.e, Reliance, Zapak Digital). Freeway currently offers two products "Freeway" and "Freeway Overpass", with a third product "Freeway for International Travelers" in the pipeline.

Freeway: provides mobile phone users with corporate (including carrier and application developers) sponsored or ad-supported data. Gaming companies in particular recognise the opportunity to leverage Freeway as a cost-effective means of user engagement.

Freeway Overpass: provides subscription access to unlimited data for a specific period (i.e., 1-week) for specific mobile content and applications (i.e., social media, games). This allows mobile subscribers to access content beyond their data plans.

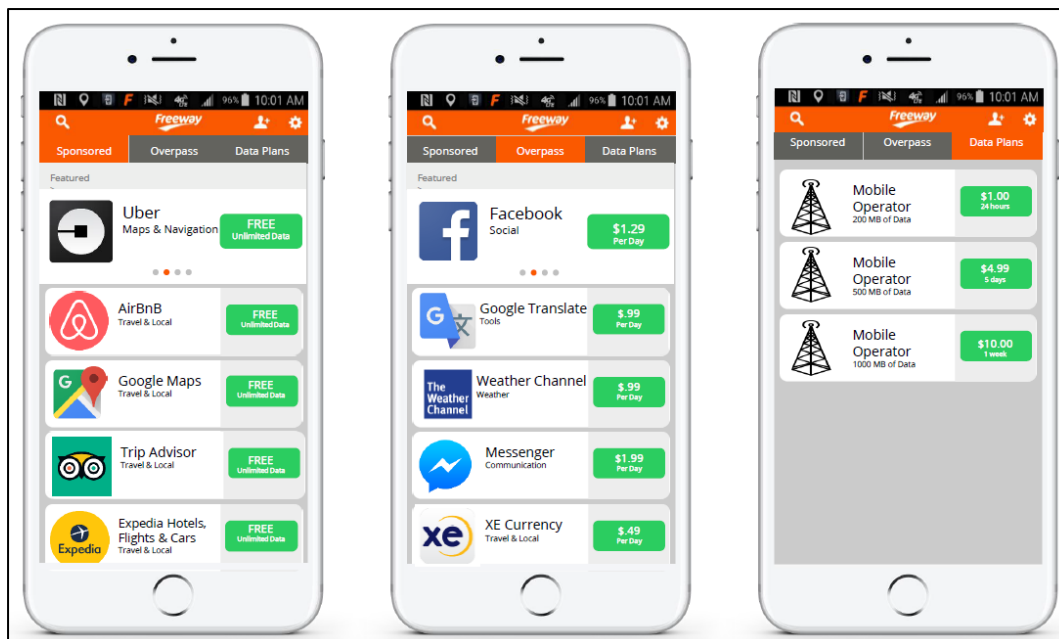
Freeway for International Travellers: provides international travellers with data plans bypassing the need for expensive international or data-roaming rates. In addition, travel and transportation apps such as Lyft, Airbnb and Expedia might sponsor access (data) to their sites to incentivise business.

Regional smartphone numbers (million)

China	644
India	306
US	229
Indonesia	84
Sub-Saharan Africa	71
Mexico	65
Vietnam	50
Turkey	41
Malaysia	18
Total	1,508

Source: emarketer 2018

Figure 7: Freeway product offerings - Freeway, Freeway Overpass, Freeway Data



Source: Company

SYT reported revenue of A\$480k and A\$320k in 1QFY18 and 2QFY18 respectively; revenue is mainly generated through licensing royalties associated with the use of the Syntonic platform technologies, i.e. SYT's Connected Services Platform ("CSP"), the Freeway SDK, and the Freeway sponsored and subscription (Overpass) services. Note: The Overpass commercial launch occurred in the last two weeks of the September quarter.

The fall in QoQ revenue, despite a 26% increase in the installed base, was disappointing. In the December quarterly review, management state this was due to the seasonal contraction of the NFL Mobile service and the group's deliberate throttling of Freeway offers in geographies that are solely supported by data rewards. The NFL Mobile app has been the largest Freeway supported service on the Verizon network. Going ahead, SYT is focusing on increasing the higher margin revenue opportunities provided by Freeway's sponsored data and Overpass services. Predicated on our estimated Freeway installed base of 18.2m in the September quarter, and assuming a 10% activation rate, we calculate that the A\$480k in revenue reported for this period imply an average quarterly royalty of US\$20c per user (or US\$6.8c per month). Predicated on our estimated Freeway installed base of 23m in the December quarter, and assuming a similar 10% activation_rate, we calculate that the A\$320k in reported revenue over this period imply a significantly lower average quarterly royalty of US\$10.6c per user (or US\$3.5c per month).

In SYT's [2018 Business Objectives](#) (23 Jan 2018), management indicate that they expect to earn a device royalty ranging from US\$1c to US\$10c per monthly activated device service and/or to directly participate in the net revenue generated by the Freeway service on the activated device.

The company expects both installed base and activations to increase as:

- SYT licenses its technology to additional carrier licensees,
- Tata Communications deploys its Sponsored Data Exchange,
- Carriers ramp up compelling content offers that include the Freeway technologies.

Our quarterly revenue profile to 4Q FY20E assumes:

- 25% QoQ growth in installed base to 200m by 4Q FY20E (note: we keep the installed base unchanged at 200m after 4Q FY20E),
- A 10% activation rate in FY18E, increasing to 20% in FY20E (and peaking at 45% by FY25E),
- An average monthly revenue/royalty of US\$4.5c per (activated) unit for the remainder of FY18E, and a flat or unchanged royalty of US\$5c per unit from 1Q FY19E,
- A flat exchange rate of US\$75c from 1Q FY19E. See table below.

Figure 8: Forecast quarterly Freeway revenue to 4Q FY20E

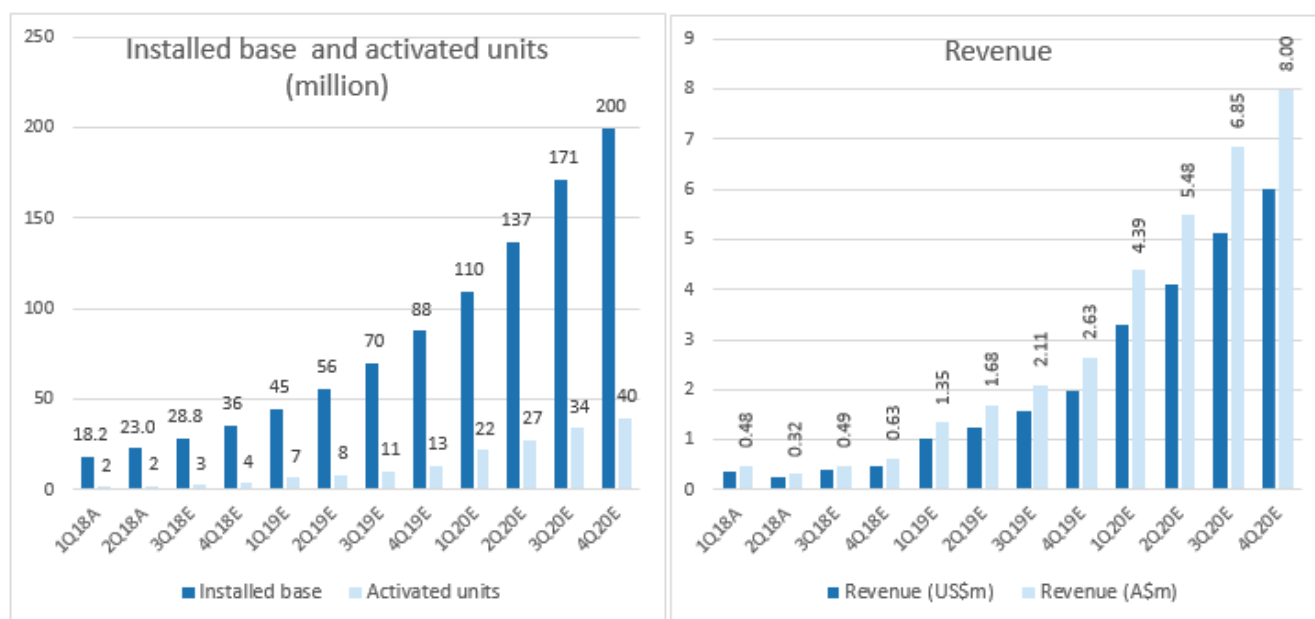
	1Q18A	2Q18A	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
Freeway installations (million units)	18.2	23.0	28.8	36	45	56	70	88	110	137	171	200
Percentage activated (%)	10%	10%	10%	10%	15%	15%	15%	15%	20%	20%	20%	20%
Activated units (million)	1.8	2.3	2.9	3.6	6.7	8.4	10.5	13.2	21.9	27.4	34.3	40.0
Average revenue per unit per month (US\$c)	6.67	3.52	4.50	4.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Revenue (US\$m)	0.36	0.24	0.39	0.49	1.01	1.26	1.58	1.97	3.29	4.11	5.14	6.00
AUD/USD exchange rate	0.76	0.76	0.80	0.78	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Revenue (A\$m)	0.48	0.32	0.49	0.63	1.35	1.68	2.11	2.63	4.39	5.48	6.85	8.00
QoQ change in A\$m revenue	11%	-33%	52%	29%	115%	25%	25%	25%	67%	25%	25%	17%

Source: State One Stockbroking forecasts

Note: 1Q FY18 and 2Q FY18 activated units and average unit revenue estimated by State One Stockbroking

Predicated on our assumptions of 1) an increasing number of Freeway installations, 2) improving activation rates and, 3) a flat average unit royalty per activated device of US\$5c per month, we forecast quarterly Freeway revenue growing from A\$0.48m in 1Q FY18 to A\$8.0m in 4Q FY20E.

Figure 9: Forecast quarterly installed and activated base and revenue profile to 4Q FY20E



Source: State One Stockbroking forecasts

Note: 1Q FY18 and 2Q FY18 activated units and average unit revenue estimated by State One Stockbroking

On an annual basis, we forecast annual Freeway revenue growing from A\$1.9m in FY18E (current financial year) to ~A\$72m in FY25E; this equates to a seven-year CAGR of 68%.

SYT expects that its efforts to increase the addressable market will result in an engaged installed base; as activation and engagement grows, SYT believes that these installed end-points will become increasingly monetizable for the group. However, we suspect that SYT will have to provide volume discounts to increase activations/usage, while many of the regions targeted for business have relatively low levels of per capita GDP. As a result, we deem it prudent to assume a flat effective ARPU of US\$5c per month over our longer-term forecast period. Note: our forecast of US\$5c per month is at the mid-point of management’s targeted unit revenue range of US\$1c-10c.

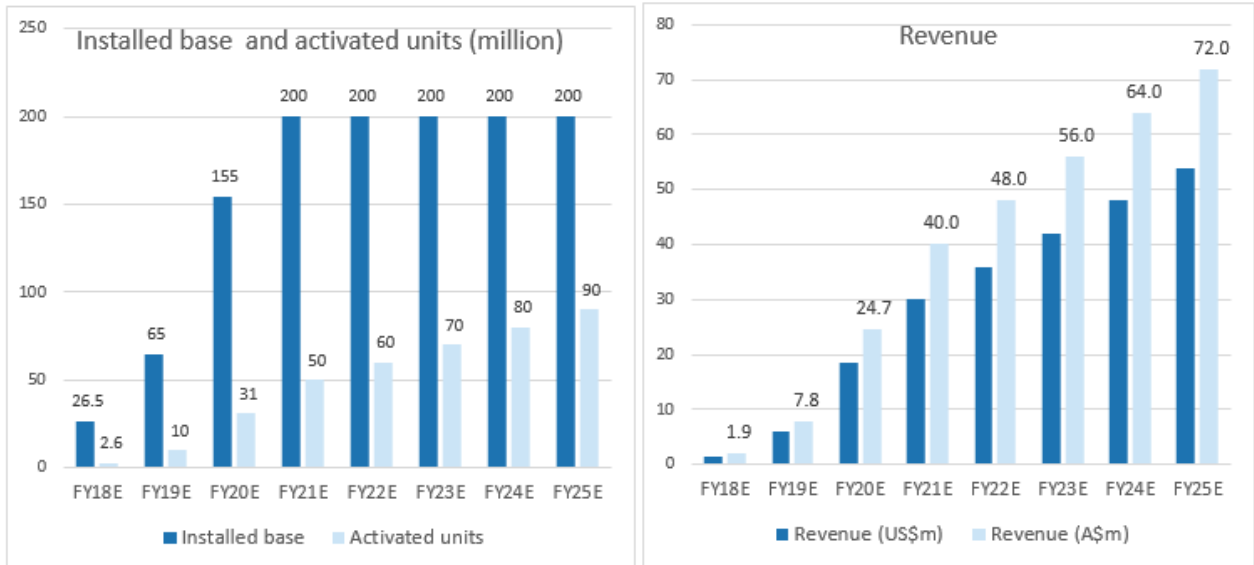
Figure 10: Forecast annual Freeway revenue to FY25E

	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Freeway installations (million units)	26.5	65	155	200	200	200	200	200
Percentage activated (%)	10%	15%	20%	25%	30%	35%	40%	45%
Activated units (million)	2.6	10	31	50	60	70	80	90
Average revenue per unit per month (US\$c)	4.80	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Revenue (US\$m)	1.48	5.83	18.54	30.00	36.00	42.00	48.00	54.00
AUD/USD exchange rate	0.78	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Revenue (A\$m)	1.9	7.8	24.7	40.0	48.0	56.0	64.0	72.0
YoY change in A\$ revenue		307%	218%	62%	20%	17%	14%	13%

Source: State One Stockbroking forecasts

Note: Annual Freeway installations calculated as simple average of forecast quarterly installations

Figure 11: Forecast annual installed and activated base and revenue profile to FY25E



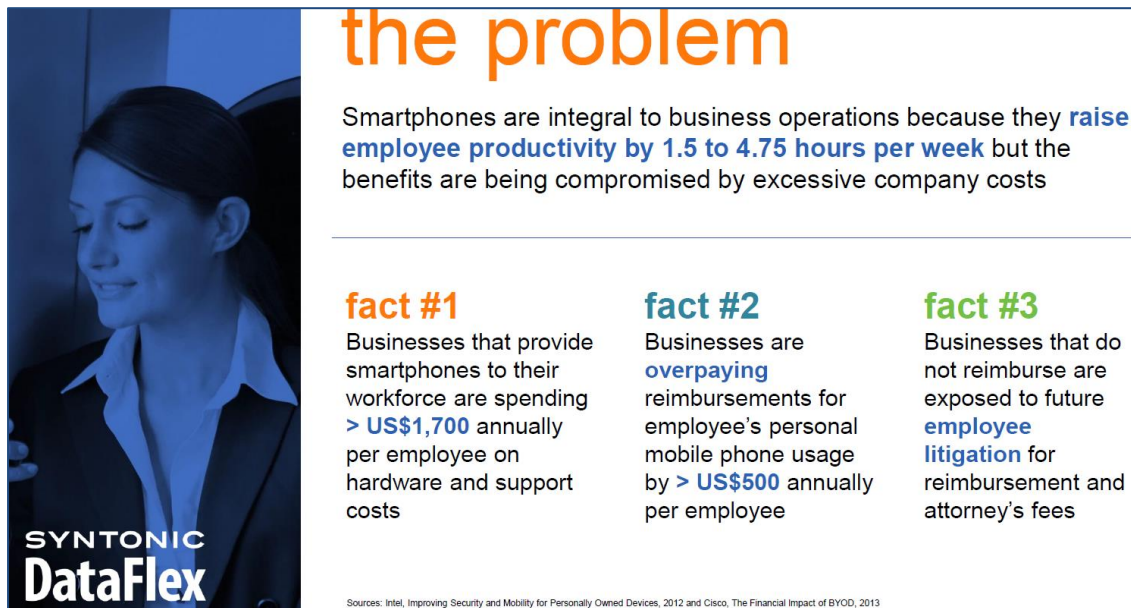
Source: State One Stockbroking forecasts

Syntonic DataFlex

While expanding the Freeway service in 2017, SYT's second services business - Syntonic DataFlex - was put on hold. In the Business Objectives for 2018 (January 2018), SYT announced that the group will renew commercialisation of the B2B service in 2018. The DataFlex service provides mobile split billing on an employee smartphone; SYT estimates that this offers the potential to reduce enterprise mobile spending by 50%, and increase workforce productivity by more than 10%. SYT indicates that it has received "significant in-bound interest" in the service, and has started the process of resourcing this business with a sales team and global channel sales team. SYT is targeting first revenue generating agreements by the end of the March 2018 quarter.

Renewing the commercialisation of the B2B service

Figure 12: Syntonic DataFlex – business proposition



the problem

Smartphones are integral to business operations because they **raise employee productivity by 1.5 to 4.75 hours per week** but the benefits are being compromised by excessive company costs

fact #1
Businesses that provide smartphones to their workforce are spending **> US\$1,700** annually per employee on hardware and support costs

fact #2
Businesses are **overpaying** reimbursements for employee's personal mobile phone usage by **> US\$500** annually per employee

fact #3
Businesses that do not reimburse are exposed to future **employee litigation** for reimbursement and attorney's fees

SYNTONIC DataFlex

Sources: Intel, Improving Security and Mobility for Personally Owned Devices, 2012 and Cisco, The Financial Impact of BYOD, 2013

Source: Company

SYT estimates the addressable market in the US alone for Syntonic Dataflex is some 100,000+ companies with 75m employees. Depending on the company size, SYT estimates individual company licence and maintenance/support revenues at between US\$36,000pa (for company with 500 employees) and US\$576,000pa (for companies with 5,000 employees).

Figure 13: Syntonic DataFlex – revenue model

SEATS PER YEAR	500 Employees	5,000 Employees
ANNUAL LICENSE (SEAT-BASED)	US\$30,000 (Standard Edition)	US\$480,000 (Premium Edition)
MAINTENANCE & SUPPORT	US\$6,000	US\$96,000
PROFESSIONAL SERVICES	Variable	Variable
SYNTONIC ANNUAL REVENUE	US\$36,000	US\$576,000
ANNUAL COMPANY SAVINGS	US\$210,000	US\$1,800,000

Source: Company

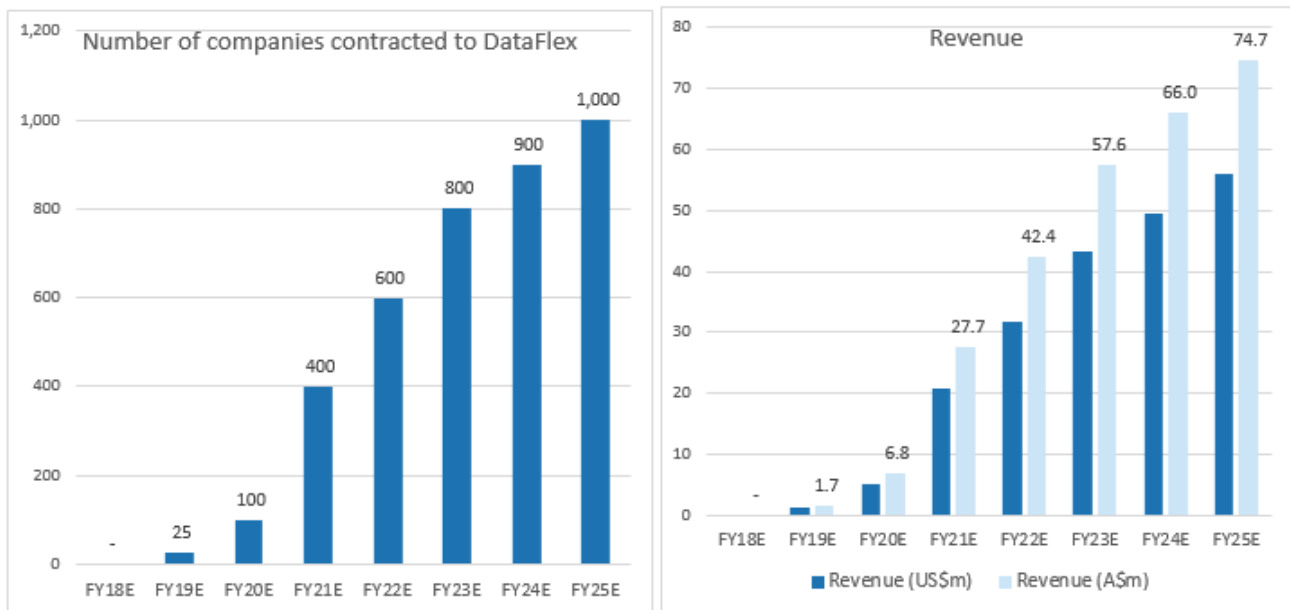
Predicated on an addressable (US) market of 100,000 businesses, with DataFlex’s market share increasing from 0.03% (25 contracts) in FY19E to 1.0% market share (100 contracts) in FY25E, and at an average contract revenue of US\$50kpa, we calculate DataFlex revenue of A\$75m in FY25E.

Figure 14: Freeway annual DataFlex revenue to FY25E

	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Addressable market (US businesses)	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
% contracted to DataFlex	na	0.03%	0.1%	0.4%	0.6%	0.8%	0.9%	1.0%
=> number contracted to DataFlex	-	25	100	400	600	800	900	1,000
Average annual revenue per contract (US\$)	50,000	50,000	51,000	52,000	53,000	54,000	55,000	56,000
Revenue (US\$m)	-	1.3	5.1	20.8	31.8	43.2	49.5	56.0
AUDUSD exchange rate	0.78	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Revenue (A\$m)	-	1.7	6.8	27.7	42.4	57.6	66.0	74.7
YoY change in A\$ revenue	na	na	308%	308%	53%	36%	15%	13%

Source: State One Stockbroking forecasts

Figure 15: Syntonic DataFlex – forecast revenue profile to FY25E



Source: State One Stockbroking forecasts

Forecast group revenue profile

Aggregating our forecast revenue profiles for the Freeway and DataFlex operations, we calculate group revenue growing from A\$1.9m in the current financial year (FY18E) to A\$9.4m in FY19E and A\$31.5m in FY20E, with the contribution from DataFlex increasing from 0% in FY18E to 22% in FY20E.

Looking further out, we forecast group revenue of ~A\$147m in FY25E, with the divisional contributions evenly split between the two divisions.

Figure 16: Forecast quarterly group revenue to 4Q FY20E

	1Q18A	2Q18A	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
Freeway by Syntonic (A\$m)	0.48	0.32	0.49	0.63	1.35	1.68	2.11	2.63	4.39	5.48	6.85	8.00
Syntonic DataFlex (A\$m)	-	-	-	-	0.17	0.33	0.50	0.67	1.70	1.70	1.70	1.70
Total : Syntonic Services (A\$m)	0.48	0.32	0.49	0.63	1.51	2.02	2.61	3.30	6.09	7.18	8.55	9.70
Freeway as % Total	100%	100%	100%	100%	89%	83%	81%	80%	72%	76%	80%	82%
DataFlex as % Total	0%	0%	0%	0%	11%	17%	19%	20%	28%	24%	20%	18%

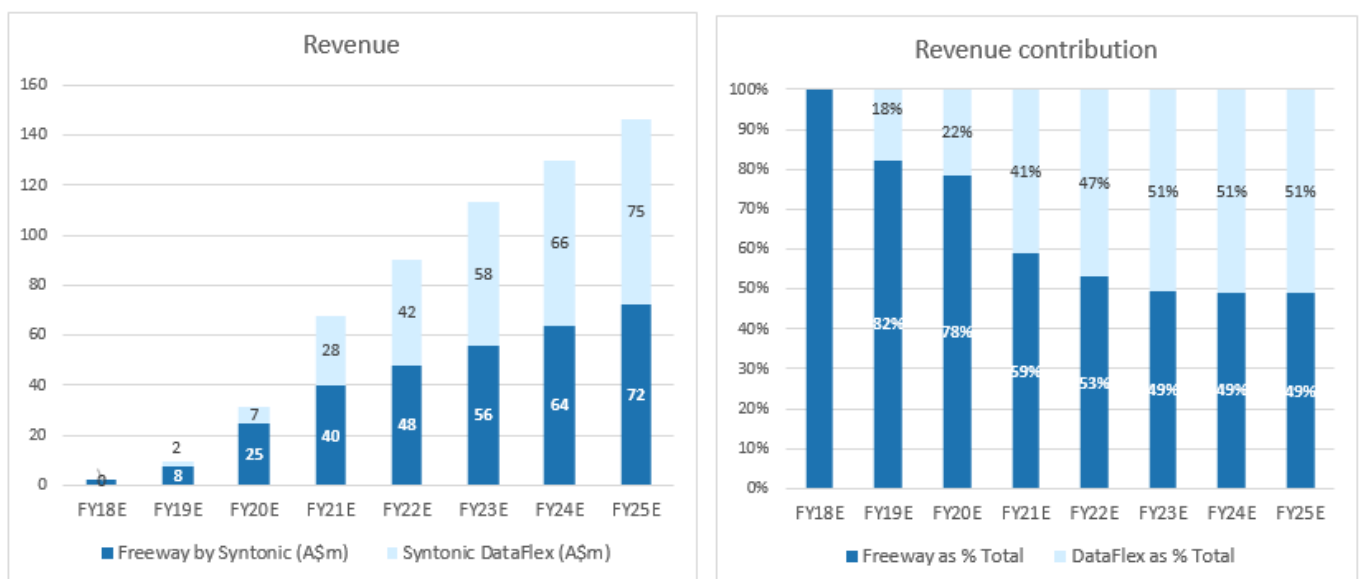
Source: State One Stockbroking forecasts

Figure 17: Forecast annual group revenue to FY25E

	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Freeway by Syntonic (A\$m)	1.9	7.8	24.7	40.0	48.0	56.0	64.0	72.0
Syntonic DataFlex (A\$m)	-	1.7	6.8	27.7	42.4	57.6	66.0	74.7
Total : Syntonic Services (A\$m)	1.9	9.4	31.5	67.7	90.4	113.6	130.0	146.7
Freeway as % Total	100%	82%	78%	59%	53%	49%	49%	49%
DataFlex as % Total	0%	18%	22%	41%	47%	51%	51%	51%

Source: State One Stockbroking forecasts

Figure 18: Forecast annual group revenue and divisional contribution to FY25E



Source: State One Stockbroking forecasts

Executive Team (Source: Company)



Gary S. Greenbaum, Ph.D.
Co-Founder, CEO

15 years of mobile leadership at Microsoft, Hutchison Whampoa, and RealNetworks

Developed RealVideo, the first global streaming video codec

8 granted patents

Doctorate in High Energy Particle Physics from University of California



Rahul Agarwal
Co-Founder, CTO

A recognised expert in architecting and developing large-scale mobile client-server solutions

Founder of Adroit Business Solutions, media solution enabler to the Fortune 100

Master of Computer Science graduate with multiple granted and pending patents



Ben Rotholtz
Chief Marketing Officer

Marketing team leader with more than 20 years of experience in consumer and enterprise software

Launched and sustained over 100 commercial products and services

Former VP Marketing, PopCap

Leadership roles at Electronic Arts, Rhapsody, Adobe and RealNetworks

Board of Directors (Source: Company)



Steve Elfman
Non-Executive Chairman
Former President of Sprint and Executive Managing Partner at Tap Growth Group



Gary Greenbaum
Managing Director
Co-Founder and CEO



Rahul Agarwal
Executive Director
Co-Founder, President and CTO



Chris Gabriel
Non-Executive Director
Former CEO of Zain Africa and Top-100 Global Telco Influencer



Nigel Hennessy
Non-Executive Director
Recognised leader in technology commercialisation with executive and director roles

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