



Buddy Platform Limited (ASX: BUD)

Buddy Ohm - a business game changer

21 June 2017

In March 2017, BUD introduced the investor community to Buddy Ohm – a real-time electricity, gas and water consumption monitoring system targeting small to medium-sized buildings and facilities. Over the past quarter, BUD has completed pre-sales customer tours in the US and Australia. The response has been – to put it mildly - extremely encouraging.

- ❖ In Australia, over 80 facilities are looking to install up to 3,500 systems.
- ❖ In the US, follow-up meetings and trial installations have been scheduled representing tens of thousands of systems.
- ❖ BUD Ohm is attracting interest from organisations with facilities much smaller than the initially targeted +9,000m², and is receiving orders from locations as small as 90 m² i.e., quick service restaurants and retail stores.
- ❖ The initial target market of customers who would use Buddy Ohm to save energy costs has broadened to include two other market segments: customers who want to verify existing energy costs (3rd party verification), and customers who have sustainability as a corporate mission.
- ❖ BUD is in advanced talks with carriers, cable companies and utilities; indirect or third party sales offer the potential for a substantial lift in unit volumes.

BUD has stated that the Buddy Ohm system has been available for sale from mid-June 2017 and that, going forwards, the group will release information on specific customers, deployment timings (installations are expected to be staggered) and sales scenarios. At this point however, we can only estimate the unit sales, revenue, and cost profiles associated with this innovative, but clearly in-demand, monitoring system. Predicated on what we believe are relatively conservative assumptions, we forecast Buddy Ohm could generate post-tax profits of A\$12m in FY18E (first full year of operation), and A\$255m over the next five years.

Forecast Buddy Ohm revenue and profits (FY18E-FY22E)

	FY18E	FY19E	FY20E	FY21E	FY22E	5-Year total
Number of Ohm systems	1,500	3,500	7,000	8,500	10,000	
Revenue per system (US\$ per month)	750	765	780	796	812	
Revenue (A\$m)	18	43	87	108	130	386
Capex per system (US\$)	500	510	520	531	541	
Capex costs (A\$m)	1	2	5	6	7	
Pre-tax margin (A\$m)	17	40	83	102	123	365
Tax @ 30%	-5	-12	-25	-31	-37	
Post-tax margin (A\$m)	12	28	58	72	86	255

Note: excludes admin/corporate costs allocated to Ohm, unit revenue and costs escalated at 2%/pa

Source: State One Stockbroking

Our estimated un-risked NPV₁₀ for Buddy Ohm and the Buddy IoT/Cloud/Parse operations is A\$345m and A\$85m respectively; attaching a 50% risk discount (execution, timing, sales volume/price/costs forecast risk), we value BUD at A\$215m or A\$0.21 per fully diluted share (A\$0.085 previously). While the share price has recovered from a January 2017 low of A\$0.05 (after the failed Noveda acquisition), we believe that BUD has the potential to go significantly higher as visibility improves on the near-term impact of Buddy Ohm on the group's revenue lines and profitability.

Share Price: A\$8.4c (close 20 June 2017)

Target Price: A\$21.0c

Recommendation
Speculative Buy

Risk Assessment
Higher

IT – Software & Services

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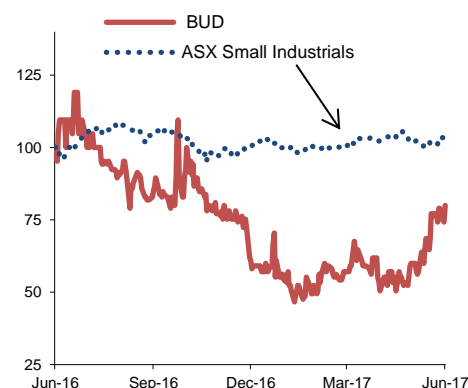
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Buddy Platform Limited

ASX Code	BUD
52 week range (A\$c)	A\$5c-A\$14c
Fully diluted Market Cap (A\$m)	86
Fully diluted no. of shares (m)	1,029
Av Daily Turnover (shares)	1.17 million
ASX All Ordinaries	5,795
2017E BV per share (A\$c)	A\$0.8c
2017E EPS (A\$c)	-A\$0.7c
2017E Cash/(Net Deb) (A\$m)	5.8

Relative price performance



Source: Iress

Financial Statements

Buddy Platform Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	0.0	1.5	28.0	57.8	112.4
Service costs	0.0	(0.8)	(5.5)	(9.6)	(22.9)
Admin/salary	(3.9)	(6.6)	(8.3)	(8.9)	(9.6)
IT/R&D	(0.9)	(2.1)	(3.0)	(3.0)	(3.1)
EBITDA	(4.8)	(8.0)	11.2	36.3	76.8
Depreciation & Amortisation	(0.0)	(0.0)	(0.6)	(0.6)	(0.6)
Operating profit	(4.8)	(8.0)	10.6	35.7	76.2
NOI	(21.4)	(0.4)	0.0	0.0	0.0
EBIT	(26.2)	(8.4)	10.6	35.7	76.2
Interest income	0.1	0.3	0.2	0.4	0.9
Interest expense	0.0	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	(10.8)	(23.1)
Reported NPAT	(26.1)	(8.1)	10.8	25.3	54.0
Normalised NPAT	(4.7)	(7.7)	10.8	25.3	54.0
EBITDA Margin (%)	na	na	40%	63%	68%
Operating profit margin (%)	na	na	38%	62%	68%
EPS Reported (A\$c)	(2.7)	(0.8)	1.0	2.5	5.2
EPS Normalised (A\$c)	(0.5)	(0.7)	1.0	2.5	5.2
EPS growth (%)	na	na	na	na	na
DPS - Declared (A\$c)	0.0	0.0	0.0	0.7	1.6
Avg. no. of fully-diluted shares (m)	680	973	991	987	1,029
YE no. of fully-diluted shares (m)	975	1,029	1,029	1,029	1,029

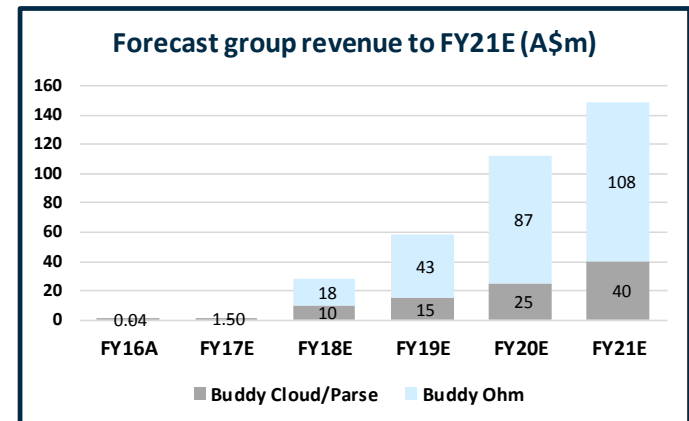
Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(4.8)	(8.0)	11.2	36.3	76.8
Investment in working capital	(0.1)	0.0	(1.8)	(1.2)	(1.6)
Tax expense	0.0	0.0	(4.2)	(11.2)	(24.2)
Operating Cash Flow	(4.8)	(7.9)	5.2	23.8	51.0
Capex	0.0	(1.5)	(2.0)	(2.0)	(3.0)
Other investments	(0.8)	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.8)	(1.5)	(2.0)	(2.0)	(3.0)
Net interest received / (paid)	0.1	0.3	0.2	0.4	0.9
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	(7.6)	(16.2)
Equity raised / (repaid)	36.6	4.5	5.4	0.0	0.0
Financing Cash Flow	36.7	4.8	5.6	(7.1)	(15.3)
Non-operating & Other	(21.3)	(0.4)	0.0	0.0	0.0
Inc/(Dec) in Cash	9.8	(5.0)	8.8	14.7	32.7

Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	10.8	5.8	14.6	29.3	61.9
Receivables	0.2	0.2	2.5	4.6	7.9
Inventories	0.0	0.0	0.6	1.2	2.2
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	0.2	1.6	3.0	4.4	6.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	1.1	1.1	1.1	1.1	1.1
Total Assets	12.3	8.7	21.8	40.6	80.0
Payables and other current Liabilities	0.2	0.2	(2.8)	(1.7)	(0.1)
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.2	0.2	(2.8)	(1.7)	(0.1)
Total Equity	12.1	8.5	24.6	42.3	80.1
Net Debt (Cash)	(10.8)	(5.8)	(14.6)	(29.3)	(61.9)

Substantial Shareholders	%	Date
David McLauchlan	16.2	
Jeffrey MacDuff	9.1	Jun-17
A2 Partners	3.6	

Source: Company, IRESS, State One Stockbroking forecasts

Operational assumptions	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue					
Buddy Cloud / Parse (A\$m)	0.0	1.5	10.0	15.0	25.0
Buddy Ohm (A\$m)	-	-	18.0	42.8	87.4
Total (A\$m)	0.0	1.5	28.0	57.8	112.4
Cloud/Parse as % group revenue	100%	100%	36%	26%	22%
Buddy Ohm as % group revenue	0%	0%	64%	74%	78%
Service costs as % revenue	na	53%	20%	17%	20%
Other costs as % revenue	na	580%	40%	21%	11%
Total costs as % revenue	na	633%	60%	37%	32%
EBITDA margin (%)	na	na	40%	63%	68%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	cash	cash	cash	cash	cash
Gearing (ND/ND+E)	cash	cash	cash	cash	cash
Interest Cover (x)	na	na	na	na	na


Valuation Ratios	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised P/E (x)	na	na	8.0	3.4	1.6
Price/OP Cash Flow (x)	-18	-11	16.5	3.6	1.7
Book value per share (A\$c)	1.2	0.8	2.4	4.1	7.8
EV/EBITDA (x)	-16	-10	6	1.6	0.3
ROE (%)	-39%	-91%	44%	60%	67%

Risk NPV-derived Target Price	A\$m	A\$cps (rounded)
IoT/Parse: NPV value (A\$m)	85	8
Risk discount		50%
IoT/Parse : risked- NPV value (A\$m)	42	4
Buddy Ohm: NPV value (A\$m)	345	34
Risk discount		50%
Buddy Ohm : risked- NPV value (A\$m)	173	17
BUD target price	215	21
Current share price (A\$c)		8.4
% upside / (down side)		149%

Company Profile: Buddy Platform Limited (ASX:BUD) listed on the ASX in December 2015 after a RTO of Potash Minerals and after completing a A\$12.5m capital raise. BUD provides one of the world's first data aggregation and management platforms for the Internet of Things (IoT) and connected devices. Buddy Platform users represent a wide variety of industries, including airlines, agriculture, automotive, consumer electronics, robotics, software development, telecommunications, and transportation. In March 2017, BUD launched Buddy Ohm - a real-time electricity, gas, and water consumption monitoring system targeting small to medium-sized buildings and facilities. BUD is headquartered in Seattle, Washington, with offices in Adelaide (SA).

Buddy Ohm

Figure 1: Background - product overview



Buddy Ohm measures electricity, gas, water and steam consumption, along with solar generation + temperature/humidity via small remote sensors

It is designed for small-medium buildings

It has a self-contained cellular modem, so it is always connected to the Buddy Cloud

Because it is always connected, we can update it with new functionality remotely, just like an iPhone app.

Source: Company presentation, June 2017

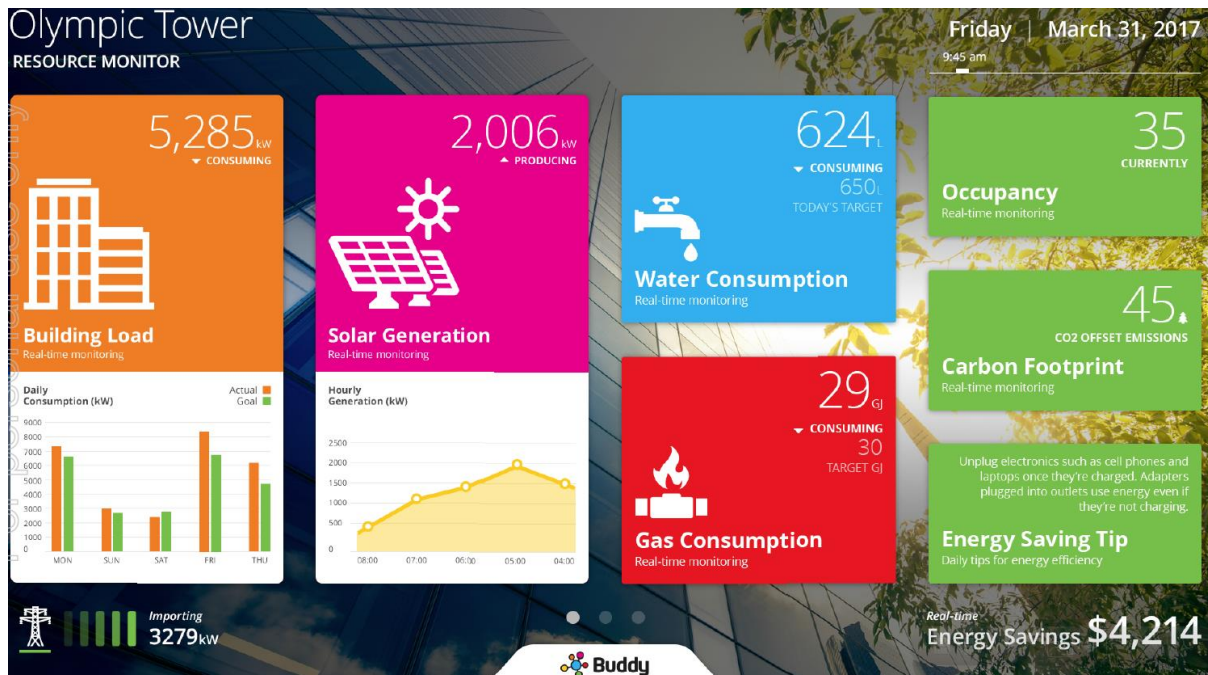
Figure 2: Background – example of competitor products



Products exist that do this... but they're terrible
 some combination of: expensive, hard to use, no access to data, only monitor electricity, ugly).

Source: Company presentation, June 2017

Figure 1: Background - example of Buddy Ohm front-end display



Source: Company presentation, June 2017

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

- Contracting risk: BUD's ability to secure new IoT/Parse contracts is not certain, nor are the revenue streams and volumes that may apply to those contracts.
- Visibility on the timing and quantum of Buddy Ohm system sales, and unit price (revenue) and costs.
- Increased competition from new and existing domestic and global competitors and technologies.
- Dependence upon key personnel.
- Near-term funding: we forecast BUD will be cash-flow positive in FY18E on the back of our forecast Buddy Ohm sales and equity inflow from options (40m options at 12.5c expiration date 30 Nov 2017, 12.5m options at 3c expiration date 30 Nov 2017). However, lower than forecast operational cash-flows, or higher than expected working capital / capex requirements may necessitate BUD having to source external funding.
- Regulatory risk, especially relating to third party data security and access.
- Currency risk: we forecast that a portion of revenue will be derived from North America. Accordingly, changes in the AUD:USD exchange rate could have an impact on fiscal performance.

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