



# Buddy Platform Limited (ASX: BUD)

## Failed Noveda acquisition fully discounted

24 January 2017

- On 12 January 2017, BUD stated that, after eight months of unsuccessful negotiations, the group was no longer pursuing the proposed US\$27m acquisition (including US\$3m in assumed liabilities) of New Jersey-based Noveda Technologies.
- The failure to get the acquisition across the line is a disappointment. We viewed the proposed acquisition as a vehicle for BUD to quickly add critical mass (we had forecast attributable revenue from Noveda contracts of A\$80m in FY20E), as well as a means to fast-track the group's entry into the key North American utilities market.
- In a 20 January review letter to shareholders, CEO David McLauchlan stated that the group's product, marketing, sales and business development efforts would now focus on winning smart city infrastructure business (utility meters, street lighting, building energy consumption etc) in Australia and the US. To service this market, BUD is developing a new product which includes a hardware component; this fully packaged solution will be introduced to potential government and private sector customers in the June 2017 quarter. A smart city infrastructure deal has already been announced with Thor Industries, and others are in the pipeline. The review also states that Parse on Buddy is likely to generate "at least six figures of revenue"
- Nevertheless, after backing out forecast Noveda revenue streams, our revised five-year (FY17E-21E) forecast revenue and net profit profiles for BUD have been significantly reduced (-77%) relative to our initial expectations. See research report "[Exposure to Internet of Things \(IoT\)](#)".

### DCF-derived target price reduced to A\$8.5cps from A\$23cps

Our revised DCF value of A\$86m is 80% below our previous A\$438m estimate; however, as a result of a lower number of forecast diluted shares - backing out an assumed scrip-funded Noveda acquisition - our target price has fallen by (a lower) 63% to A\$8.5cps (A\$23cps previously). At current price levels of A\$5.8cps, we believe that the impact of the failed acquisition is fully priced in.

Share Price: A\$5.8c

Target Price: A\$8.5c

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

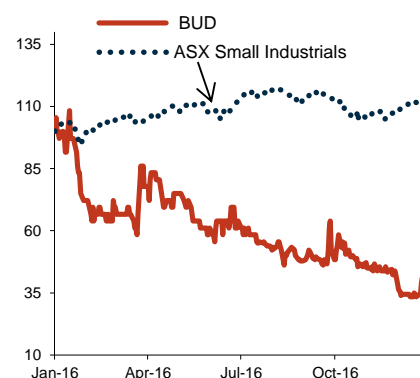
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#### Buddy Platform Limited

ASX Code	BUD
52 week range (A\$c)	A\$5.8c-A\$25c
Fully diluted Market Cap (A\$m)	59
Fully diluted no. of shares (m)	1,020
Av Daily Turnover (shares)	1.9 million
ASX All Ordinaries	5,714
2017E BV per share (A\$c)	A\$1c
2017E EPS (A\$c)	-A\$0.5c
2017E Net Debt/(Cash) (A\$m)	-7.9

#### Relative price performance



Source: Iress

#### Key Financials

Year-end June	FY16A	FY17E	FY18E	FY19E	FY20E
IoT/Parse (A\$m)	0.0	1.8	11.0	16.0	24.0
Noveda: Ottawa (A\$m)	-	-	-	-	-
Noveda: Other (A\$m)	-	-	-	-	-
Group revenue (A\$m)	0.0	1.8	11.0	16.0	24.0
Service costs (A\$m)	-	(0.8)	(5.0)	(7.2)	(10.8)
Other costs (A\$m)	(4.8)	(6.7)	(8.0)	(8.2)	(8.3)
EBITDA (A\$m)	(4.8)	(5.8)	(2.0)	0.6	4.9
EBITDA margin (%)	na	(3.3)	-18%	4%	20%
Normalised NPAT (A\$m)	(4.7)	(5.5)	(1.8)	0.7	3.4
EPS Reported (A\$c)	(2.7)	(0.6)	(0.2)	0.07	0.3
EPS Normalised (A\$c)	(0.5)	(0.5)	(0.2)	0.07	0.3
DPS (A\$c)	-	-	-	-	-
PER (x)	na	na	na	85	17.2
Net debt / (cash) (A\$m)	(10.8)	(7.9)	(5.2)	(4.9)	(7.5)
Capex (A\$m)	-	(0.5)	(0.5)	(1.0)	(1.0)

Source: IRESS, Company Data, State One Stockbroking. Share price: \$ 0.058 Jan 24, 2017

## Financial Statements

### Buddy Platform Limited

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	0.0	1.8	11.0	16.0	24.0
Service costs	0.0	(0.8)	(5.0)	(7.2)	(10.8)
Admin/salary	(3.9)	(5.6)	(6.0)	(6.1)	(6.2)
IT/R&D	(0.9)	(1.1)	(2.0)	(2.0)	(2.1)
<b>EBITDA</b>	<b>(4.8)</b>	<b>(5.8)</b>	<b>(2.0)</b>	<b>0.6</b>	<b>4.9</b>
Depreciation & Amortisation	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
<b>Operating profit</b>	<b>(4.8)</b>	<b>(5.8)</b>	<b>(2.1)</b>	<b>0.5</b>	<b>4.8</b>
NOI	(21.4)	(0.4)	0.0	0.0	0.0
<b>EBIT</b>	<b>(26.2)</b>	<b>(6.2)</b>	<b>(2.1)</b>	<b>0.5</b>	<b>4.8</b>
Interest income	0.1	0.3	0.2	0.2	0.1
Interest expense	0.0	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	(1.5)
<b>Reported NPAT</b>	<b>(26.1)</b>	<b>(5.9)</b>	<b>(1.8)</b>	<b>0.7</b>	<b>3.4</b>
<b>Normalised NPAT</b>	<b>(4.7)</b>	<b>(5.5)</b>	<b>(1.8)</b>	<b>0.7</b>	<b>3.4</b>
EBITDA Margin (%)	na	-329%	-18%	4%	20%
Operating profit margin (%)	na	-332%	-19%	3%	20%
EPS Reported (A\$c)	(2.7)	(0.6)	(0.2)	0.07	0.3
<b>EPS Normalised (A\$c)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.2)</b>	<b>0.07</b>	<b>0.3</b>
EPS growth (%)	na	na	na	na	na
DPS - Declared (A\$c)	0.0	0.0	0.0	0.0	0.0
Avg. no. of fully-diluted shares (m)	680	976	999	999	1,020
YE no. of fully-diluted shares (m)	975	1,020	1,020	1,020	1,020

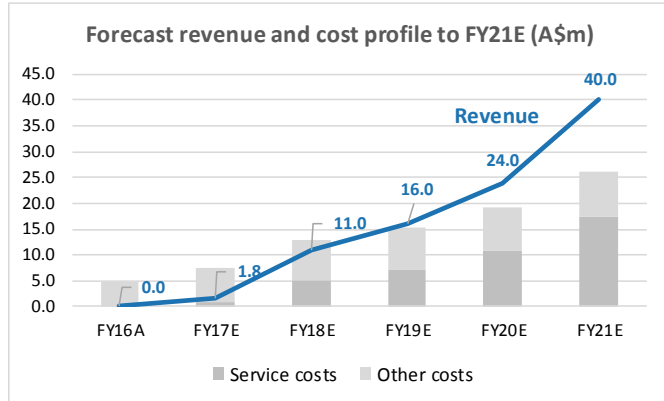
Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(4.8)	(5.8)	(2.0)	0.6	4.9
Investment in working capital	(0.1)	0.0	(0.5)	(0.0)	0.0
Tax expense	0.0	0.0	0.0	0.0	(1.5)
<b>Operating Cash Flow</b>	<b>(4.8)</b>	<b>(5.8)</b>	<b>(2.5)</b>	<b>0.6</b>	<b>3.4</b>
Capex	0.0	(0.5)	(0.5)	(1.0)	(1.0)
Other investments	(0.8)	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(0.8)</b>	<b>0.0)</b>	<b>(0.50)</b>	<b>(1.0)</b>	<b>(1.00)</b>
Net interest received / (paid)	0.1	0.3	0.2	0.2	0.1
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	36.6	4.5	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>36.7</b>	<b>4.8</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
Non-operating & Other	(21.3)	(0.4)	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>9.7</b>	<b>(1.8)</b>	<b>(2.7)</b>	<b>(0.2)</b>	<b>2.5</b>

Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	10.8	7.9	5.2	4.9	7.5
Receivables	0.2	0.2	1.0	1.3	1.7
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 and Exploration & Development	0.2	0.6	1.0	1.9	2.8
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
<b>Total Assets</b>	<b>12.3</b>	<b>9.9</b>	<b>8.3</b>	<b>9.3</b>	<b>13.1</b>
Payables and other current Liabilities	0.2	0.2	0.6	0.8	1.2
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
<b>Total Liabilities</b>	<b>0.2</b>	<b>0.2</b>	<b>0.6</b>	<b>0.8</b>	<b>1.2</b>
<b>Total Equity</b>	<b>12.1</b>	<b>9.6</b>	<b>7.8</b>	<b>8.5</b>	<b>11.9</b>
Net Debt (Cash)	(10.8)	(7.9)	(5.2)	(4.9)	(7.5)

Substantial Shareholders	%	Date
David McLauchlan	14.4	
Jeffrey MacDuff	9.6	Sep-16
A2 Partners	3.8	

Source: Company, IRESS, State One Stockbroking forecasts

Operational assumptions	FY16A	FY17E	FY18E	FY19E	FY20E
<b>Revenue</b>					
IoT / Parse (A\$m)	0.0	1.8	11	16	24
Noveda:Ottawa a contract (US\$m)	-	-	-	-	-
Noveda:Other contracts (US\$m)	-	-	-	-	-
Group revenue (A\$m) (@ US\$0.75)	0.0	1.8	11	16	24
YoY % change in revenue	na	na	527%	45%	50%
Service costs as % revenue	na	45%	45%	45%	45%
Other costs as % revenue	na	384%	73%	51%	35%
Total costs as % revenue	na	429%	118%	96%	80%
<b>EBITDA margin (%)</b>	<b>na</b>	<b>-329%</b>	<b>-18%</b>	<b>4%</b>	<b>20%</b>



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	na	85.1	17.2
Price/OP Cash Flow (x)	-12	-10	-24.0	98.6	17.4
Book value per share (A\$c)	1.2	0.9	0.8	0.8	1.2
EV/EBITDA (x)	-10	-9	-28	84.7	10.6
ROE (%)	-39%	-57%	-23%	8%	29%

Risked DCF-derived Target Price		
DCF value (A\$m)	86	10% discount rate
Fully diluted no. of shares (m)	1,020	
DCF value (A\$cps)	8.5	
<b>Risk discount</b>	<b>0%</b>	<b>Assume no acquisitions</b>
<b>Risked DCF target price (A\$cps)</b>	<b>8.5</b>	

#### DCF sensitivity (A\$cps) to post FY21E revenue growth and EBITDA margin

DCF drivers	Post FY21E EBITDA margin (%)					
	25%	30%	35%	40%	45%	
<b>Post FY21E Revenue growth (YoY%)</b>	10%	5.2	6.0	6.9	7.8	8.7
	15%	6.3	7.4	<b>8.5</b>	9.6	10.7
	20%	7.7	9.1	10.5	11.8	13.2

**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. BUD is headquartered in Seattle, Washington, with offices in Adelaide (SA).

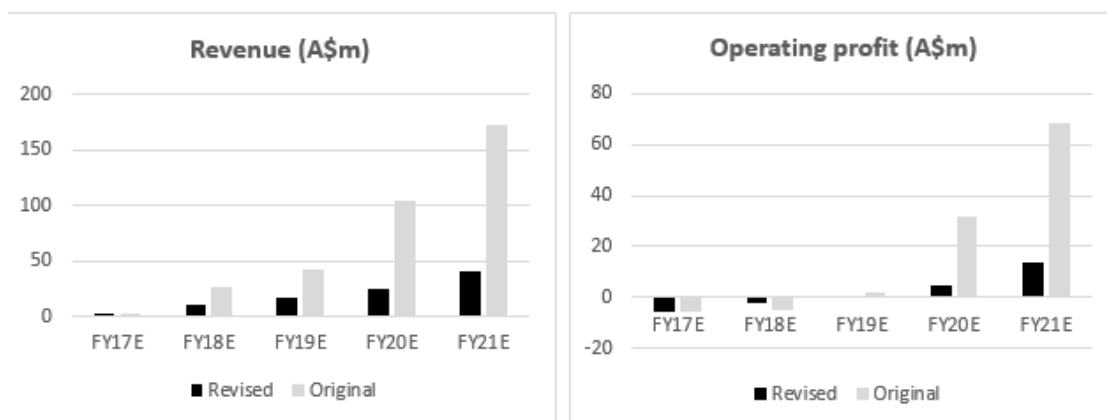
## Revised versus original forecasts

Figure 1: Revenue/profits (FY17E-FY21E)

Revenue (A\$m)	FY17E	FY18E	FY19E	FY20E	FY21E	FY17E-21E average
Revised	1.8	11.0	16.0	24.0	40.0	18.6
Original	2.6	26.0	42.7	104.0	173.3	69.7
Variance	(0.8)	(15.0)	(26.7)	(80.0)	(133.3)	(51.2)
Variance (%)	-33%	-58%	-63%	-77%	-77%	-77%

Operating profit (A\$m)	FY17E	FY18E	FY19E	FY20E	FY21E	FY17E-21E average
Revised	(5.8)	(2.1)	0.5	4.8	13.9	2.3
Original	(5.5)	(4.8)	1.9	31.8	68.7	18.4
Variance	(0.3)	2.8	(1.4)	(27.0)	(54.8)	(16.1)
Variance (%)	na	na	-72%	-85%	-80%	-77%



Source: State One Stockbroking forecasts

Figure 2: Target price calculation

Revised		Comments
DCF value (A\$m)	86	10% discount rate
Fully diluted no. of shares (m)	1,020	
DCF value (A\$cps)	8.5	
Risk discount	0%	Assume no acquisitions
Risked DCF target price (A\$cps)	8.5	
Current share price (A\$c)	5.8	
% upside / (downside)	46%	

Original		Comments
DCF value (A\$m)	438	10% discount rate
Fully diluted no. of shares (m)	1,425	
DCF value (A\$cps)	31	
Risk discount	25%	Noveda acquisition
Risked DCF target price (A\$cps)	23	
Current share price (A\$c)	8	
% upside / (downside)	191%	

Source: State One Stockbroking forecasts

Note: Original target price as per State One's research report "[Exposure to Internet of Things \(IoT\)](#)".

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

- Contracting risk: BUD's ability to secure new contracts is not certain, nor are the revenue streams and volumes that may apply to those contracts.
- 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 negative in FY17E and FY18E. 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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