



Buddy Platform Limited (ASX: BUD)

Exposure to Internet of Things (IoT)

- Buddy Platforms (BUD) - one of the world's first data aggregation and management platforms to focus on connected device data - gives ASX investors exposure to the fast growing "third wave" in Internet technology - the Internet of Things (IoT).
- In July 2016, BUD reported that it had achieved the first of its three performance milestones of 20 million discrete connections per day for three consecutive weeks (some 17 months ahead of schedule).
- In the most recent reported quarter (September 2016), BUD's sales pipeline had grown 60% QoQ to A\$5.9m (excluding a A\$1.2m contract with the world's largest recreational vehicles manufacturer Thor Industries).
- We see the proposed US\$24m acquisition of US-based Noveda Technologies (waiting for execution of formal binding documentation) as a key development, which will not only add critical mass, but also fast-track BUD into the key North American utilities market.
- We forecast group service revenues increasing from A\$2.6m in the current financial year (FY17E) to A\$173n in FY21E. In a recent Forbes article "[Roundup of Internet of Things Forecasts and Market Estimates, 2016](#)", Bain predicts IoT total revenue of US\$470bn by 2020, with some 20% (US\$90bn) attributable to BUD's target market i.e., cloud, applications, analytics and data services. Relative to this, our forecast FY21E revenue has, we suggest, significant upside potential.
- Although we see BUD as being cash flow negative in FY17/18E, we believe that - following a recent A\$4.5m capital raise - the group's cash balance (A\$13.3m cash as at 30 September 2016) should see the group through to FY19E when we forecast cash flow turning positive.

Risk adjusted DCF-derived target price: A\$23cps

Our estimated DCF value is A\$438m or A\$31c per fully-diluted share (post Noveda acquisition). Attaching a 25% acquisition risk discount, our target price of A\$23c offers significant upside potential. **We initiate coverage with a Speculative Buy (Higher Risk) recommendation**

Key Financials

Year-end June	FY16A	FY17E	FY18E	FY19E	FY20E
IoT/Parse (A\$m)	0.0	2.6	10.0	16.0	24.0
Noveda: Ottawa a (A\$m)	-	-	8.0	12.0	40.0
Noveda: Other (A\$m)	-	-	4.0	8.0	20.0
Group revenue (A\$m)	0.0	2.6	26.0	42.7	104.0
Service costs (A\$m)	-	(1.3)	(14.3)	(23.5)	(54.6)
Other costs (A\$m)	(4.8)	(6.7)	(16.0)	(16.3)	(16.6)
EBITDA (A\$m)	(4.8)	(5.5)	(4.3)	2.9	32.8
EBITDA margin (%)	na	na	-17%	7%	31%
Normalised NPAT (A\$m)	(4.7)	(5.2)	(4.5)	2.0	22.3
EPS Reported (A\$c)	(2.7)	(0.5)	(0.3)	0.14	1.6
EPS Normalised (A\$c)	(0.5)	(0.5)	(0.3)	0.14	1.6
DPS (A\$c)	-	-	-	-	-
PER (x)	na	na	na	57	5.0
Net debt / (cash) (A\$m)	(10.8)	(8.6)	(3.0)	(4.8)	(26.3)
Capex (A\$m)	-	(0.0)	(0.5)	(1.0)	(1.0)

Source: IRESS, Company Data, State One Stockbroking. Share price: \$ 0.078 Dec 15, 2016

16 December 2016

Share Price: A\$7.8c

Target Price: A\$23c

Recommendation
Speculative Buy

Risk Assessment
Higher

IT – Software & Services

David Brennan, CFA

Senior Investment Analyst

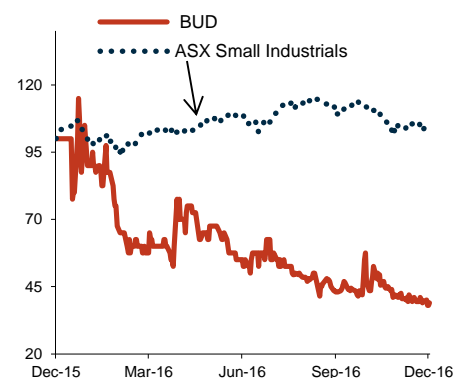
dbrennan@stateone.com.au

+61 (0)2 9024 9142

Buddy Platform Limited

ASX Code	BUD
52 week range (A\$c)	A\$8c-A\$25c
Fully diluted Market Cap (A\$m)	79.6
Fully diluted no. of shares (m)	1,020
Av Daily Turnover (shares)	2.4 million
ASX All Ordinaries	5,606
2017E BV per share (A\$c)	A\$1c
2017E EPS (A\$c)	-A\$0.5c
2017E Net Debt/(Cash) (A\$m)	-8.6

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	2.6	26.0	42.7	104.0
Service costs	0.0	(1.3)	(14.3)	(23.5)	(54.6)
Admin/salary	(3.9)	(5.6)	(12.0)	(12.2)	(12.5)
IT/R&D	(0.9)	(1.1)	(4.0)	(4.1)	(4.2)
EBITDA	(4.8)	(5.5)	(4.3)	2.9	32.8
Depreciation & Amortisation	(0.0)	(0.0)	(0.5)	(1.0)	(1.0)
Operating profit	(4.8)	(5.5)	(4.8)	1.9	31.8
NOI	(21.4)	(0.4)	0.0	0.0	0.0
EBIT	(26.2)	(5.9)	(4.8)	1.9	31.8
Interest income	0.1	0.3	0.3	0.1	0.1
Interest expense	0.0	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	(9.6)
Reported NPAT	(26.1)	(5.6)	(4.5)	2.0	22.3
Normalised NPAT	(4.7)	(5.2)	(4.5)	2.0	22.3
EBITDA Margin (%)	na	na	-17%	7%	31%
Operating profit margin (%)	na	na	-18%	4%	31%
EPS Reported (A\$c)	(2.7)	(0.5)	(0.3)	0.14	1.6
EPS Normalised (A\$c)	(0.5)	(0.5)	(0.3)	0.14	1.6
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	1,204	1,409	1,430
YE no. of fully-diluted shares (m)	975	1,020	1,430	1,430	1,430

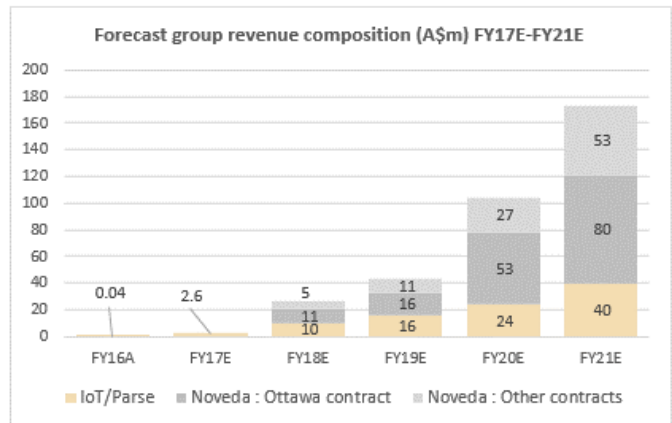
Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(4.8)	(5.5)	(4.3)	2.9	32.8
Investment in working capital	(0.1)	(0.1)	(1.0)	(0.2)	(0.8)
Tax expense	0.0	0.0	0.0	0.0	(9.6)
Operating Cash Flow	(4.8)	(5.5)	(5.3)	2.6	22.4
Capex	0.0	(0.0)	(0.50)	(1.0)	(1.00)
Other investments	(0.8)	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.8)	(0.0)	(0.50)	(1.0)	(1.00)
Net interest received / (paid)	0.1	0.3	0.3	0.1	0.1
Debt draw down n / (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
Financing Cash Flow	36.7	4.8	0.3	0.1	0.1
Non-operating & Other	(21.3)	(0.4)	0.0	0.0	0.0
Inc/(Dec) in Cash	9.7	(1.1)	(5.6)	1.7	21.5

Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	10.8	8.6	3.0	4.8	26.3
Receivables	0.2	0.3	2.3	3.4	7.3
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	0.2	0.2	0.2	0.2
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	10.2	6.7	9.5	34.9
Payables and other current Liabilities	0.2	0.2	1.3	2.1	5.2
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
Total Liabilities	0.2	0.2	1.3	2.1	5.2
Total Equity	12.1	9.9	5.4	7.3	29.7
Net Debt (Cash)	(10.8)	(8.6)	(3.0)	(4.8)	(26.3)

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
Revenue					
IoT / Parse (A\$m)	0.0	2.6	10	16	24
Noveda:Ottawa contract (US\$m)	-	-	8	12	40
Noveda:Other contracts (US\$m)	-	-	4	8	20
Group revenue (A\$m) (@ US\$0.75)	0.0	2.6	26	43	104
YoY % change in revenue	na	na	918%	64%	144%
Service costs as % revenue	na	50%	55%	55%	53%
Other costs as % revenue	na	264%	62%	38%	16%
Total costs as % revenue	na	314%	117%	93%	69%
EBITDA margin (%)	na	na	-17%	7%	31%



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	56.6	5.0
Price/OP Cash Flow (x)	-23	-20	-20.9	42.3	5.0
Book value per share (A\$c)	1.2	1.0	0.4	0.5	2.1
EV/EBITDA (x)	-21	-19	-25	37.1	2.6
ROE (%)	-39%	-52%	-85%	27%	75%

Risk DCF-derived Target Price		
DCF value (A\$m)	437	10% discount rate
Fully diluted no. of shares (m)	1,430	
DCF value (A\$cps)	31	
Risk discount	25%	Noveda acquisition
Risk DCF target price (A\$cps)	23	

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

DCF drivers	Post FY21E EBITDA margin (%)					
	30%	35%	40%	45%	50%	
Post FY21E Revenue growth (YoY%)	10%	20	23	26	28	31
	15%	24	27	31	34	37
	20%	29	33	37	41	45

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). BUD is currently looking to buy US-based Noveda Technologies. A successful acquisition would significantly expand BUD's customer base - particularly in North American (US/Canada) utility service management.

Valuation

DCF valuation

Our estimated DCF-derived equity value for BUD of A\$438m - equivalent to A\$31c per fully diluted share – is predicated on the following assumptions:

- Explicit cash flow forecasts over the five-year forecast period FY17E-FY21E),
- Two-stage revenue growth after FY21E:
 - Relatively high revenue growth of 15%pa over the five-year period FY22E-FY26E,
 - Terminal revenue growth of 5%pa (1/3 high growth rate).
- Two-stage EBITDA margin after FY21E:
 - Relatively high EBITDA margin of 40% (equal to FY21E) over the five-year period FY22E-FY26E,
 - Terminal EBITDA margin of 20%pa (1/2 high margin).
- A discount rate of 10%,
- 1,425 million fully diluted number of shares, derived from existing 1,020 million fully diluted shares plus a forecast 405m new shares issued to purchase Noveda Technologies (i.e., consideration of US\$24m (A\$32m @ US\$0.75) and BUD’s current share price of A\$8c).

Estimated fully-diluted no. of shares after Noveda acquisition

	Million
Fully diluted no. of shares in issue (September 2016)	1,020
Noveda acquisition	405
Total	1,425

Source: Company, State One Stockbroking

Figure 1: DCF calculation

Value of Operations: DCF approach			
Year	Free Cash Flow	Discount Factor	PV of FCF
2017	(6)	0.909	(5)
2018	(6)	0.826	(5)
2019	2	0.751	1
2020	21	0.683	15
2021	48	0.621	30
2022	56	0.564	31
2023	64	0.513	33
2024	73	0.467	34
2025	84	0.424	36
2026	97	0.386	37
2027	51	0.350	18
2028	54	0.319	17
2029	56	0.290	16
2030	59	0.263	16
2031	62	0.239	15
Cont. Value	654	0.239	157
Operating Value			446
Continuing value % Operating value			35.1%
Mid-Year Adjustment Factor			0.959
Operating Value (Adjusted)			428

Value of Equity	
Operating Value	428
Excess Mkt Securities	9
Financial Investments	1
Excess Pension Assets	0
Enterprise Value	438
Debt	0
Capitalized Operating Leases	0
Retirement Related Liability	0
Preferred Stock	0
Minority Interest	0
Long-Term Operating Provisic	0
Restructuring Provision	0
Future Stock Options	0
Stock options	0
Equity Value	438
No. shares (thousands)	1,425
Value per Share (A\$)	31

Source: State One Stockbroking Forecasts

Note: Cash and financial investments as per FY17E forecasts

DCF sensitivity

Our base-case DCF valuation of A\$31c per fully-diluted share assumes long-term (i.e., post FY21E) revenue growth of 15%pa, and an EBITDA margin of 40%. Revenue growth and margin sensitivity is tabled below.

Figure 2: DCF sensitivity (A\$c)

DCF drivers	Post FY21E EBITDA margin (%)					
		30%	35%	40%	45%	50%
Post FY21E Revenue growth (YoY%)	10%	20	23	26	28	31
	15%	24	27	31	34	37
	20%	29	33	37	41	45

Source: State One Stockbroking forecasts

Target price, recommendation and risks

We view the successful acquisition of Noveda as a key driver of our forecast revenue profile over the next five years; in FY21E we forecast that electricity, water & gas monitoring & verification contracts will account for +75% of group service revenue. Although we believe the acquisition will progress, we attach a 25% discount to our DCF value to capture acquisition risk. Our risk-adjusted target price of A\$23cps indicates significant upside potential relative to current share price levels of A\$8cps. **We initiate coverage on BUD with a Speculative Buy (Higher Risk) recommendation.**

Figure 3: Target price calculation

		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: IRESS, State One Stockbroking forecasts

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.
- Unsuccessful acquisition of Noveda 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 majority of revenue will be derived from North America. Accordingly, changes in the AUD:USD exchange rate will have a material impact on fiscal performance.

Recommendation:

Speculative Buy
(Higher risk)

Target Price: A\$23c

Background

In July 2015, minerals exploration company Potash Minerals Limited (ASX: POK) signed a binding HOA to acquire 100% of the issued share capital of Buddy Platform Inc. – a Seattle-based Internet of Things (IoT) software platform company. Following a A\$12.5m capital raising in November 2015, POK relisted on the ASX as Buddy Platform (ASX: BUD). The effective consideration for Buddy Platform was A\$50m (500m BUD shares at IPO issue price of A\$0.10ps); A\$63.5m including A\$13.5m in performance shares and options.

Business Model

BUD management believes that the Internet is presently embarking on its third and largest technology “wave”. The first wave was the web, the second wave was mobile, and the third (current) wave is connected devices and sensors. The increasing connectivity of “things” (i.e., cars, lightbulbs, locks, machines, sensors) to the internet is forecast to create significant economic value for both individuals and businesses, fundamentally change how devices are used and how their use is measured. Collectively, this connectivity is referred to as the “Internet of Things”; the majority of value created by IoT is anticipated to be in business to business (B2B) scenarios.

BUD’s software-as-a-service (SaaS) platform operates in the cloud through a network of regional data centres located in four continents. Buddy Platform helps customers take advantage of this ever more connected world by unlocking the value in the tremendous amounts of data generated by IoT devices.

There are three steps to how Buddy works – 1) Connect, 2) Process and 3) Integrate and Analyze

Connect – just a few lines of code connects devices to the Buddy Platform. There are no heavy agents or proprietary silicon requirements necessary, and this simple process allows any connected device to send data to Buddy.

Process – Buddy can translate raw data into actionable information, and support custom analysis in the cloud of this data. Based on the outcomes of this analysis, Buddy can control devices automatically from the cloud, allowing remote and real-time operation of fleets of thousands (or more!) of devices.

Revenue generation

BUD’s model is for customers pay a (modest) monthly charge to send large quantities of data to BUD, and then pay (a multiple of this charge) to access the data once hosted/managed/processed. The model reflects the relatively early stage of IoT adoption within businesses/industry. Once ever increasing amounts of data is stored, and as companies realise more opportunities to leverage their data, BUD believes that customers will be more prepared to pay to access the data.

BUD has entered into a number of contractual relationships with customers, suppliers, and partners. Some of these agreements contemplate a full commercial relationship, some contemplate a “proof of concept” or “trial” relationship, and others contemplate a partnership intended to drive additional business and customers to both Buddy and the partner.

Figure 4: Revenue sources

Data In (to Buddy)	Data Out (to customer)	On-Premise
Monthly access fee Storage per TB.	Visualizations & dashboards Business tool integrations M2M / big data exports Device control / monitoring.	Setup fee + recurring maintenance fee.
<small>(starts at \$1,000/mo + \$150/TB for storage)</small>	<small>(Bulk data exports start at \$5,000/mo, or pay \$100 per 10 transactions per second)</small>	<small>(starts at \$250,000 + \$50,000/mo)</small>

Source: Company (June 2016 Presentation)

Companies with whom BUD has a commercial relationship include a major US telecommunications carrier, Washington’s Lottery and their agency of record, Connexion Media (ASX: CXZ), Thor Industries (a major US recreational vehicle manufacturer) and a number of organizations that have required confidentiality as part of their relationship with the company.

BUD is currently working with a number of utilities, municipalities (mostly in the connected street light space), wide area IoT network providers and a connected city electrical component manufacturer.

Noveda’s current customers include large multinationals such as Deutsche Bank, Honeywell, Prudential, Rolls Royce, Avis Budget, Johnson Controls, Natural Resource Defence Council (NRDC) as well as leading Utilities PSE&G and Energy Ottawa.

The largest opportunity is Noveda’s contract with the New York State Energy Research and Development Authority (NYSERDA).

Prior to announcing the NYSEDA deal, BUD shared that Noveda’s existing contracts targeted upwards of US\$15 million to US\$20 million over the next 3 years. This program provides for US\$36 million to fund 30% of the installation and 5-year operating costs of a building Real-Time Energy Monitoring (“RTEM”) system seeding US\$100 million in NY state-wide RTEM spend.

Sales efforts in support of these opportunities (with particular focus on NYSEDA) are well underway with dedicated resources focused on revenue generation and pipeline development. Only weeks after signing the NYSEDA deal, the early pipeline for this opportunity exceeds US\$500,000.

Noveda’s management holds the view that energy monitoring, verification and controls has a total addressable market of over US\$1 billion in just New York State alone.

Following the NYSEDA win, Noveda’s leadership team is supporting efforts by at least two other major US cities to roll out their own version of NYSEDA’s RTEM program.

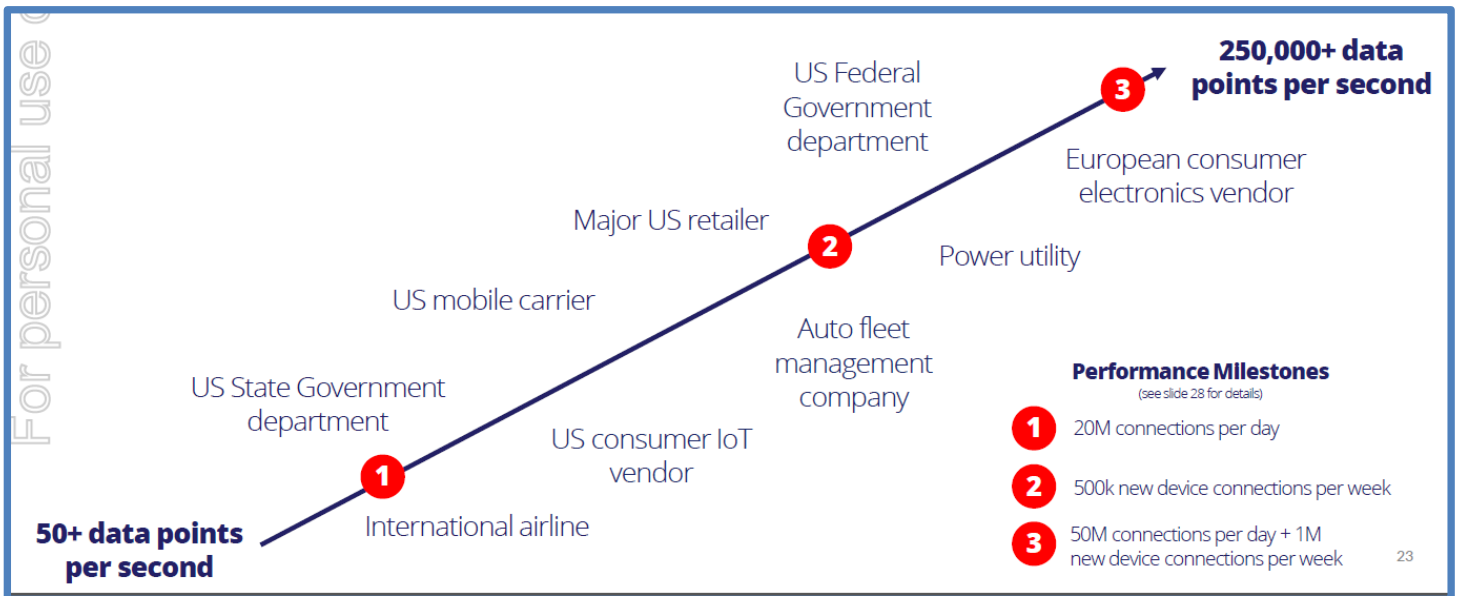
With the revenue model dependent on gaining critical data mass (and an anticipated increase in customer willingness to pay to access the data), BUD's near to mid-term performance milestones are directed at data volume.

128.3m Vendor Performance Shares/Rights will convert to ordinary shares in BUD upon satisfaction of the following milestones:

- One third to vest on 20m total discrete connections per day for no less than three (3) consecutive weeks within a period of 24 months from the date of completion of the IPO Capital Raising (November 2015).
- One third to vest on at least 500k new devices interacting per week with a Buddy application for no less than three (3) consecutive weeks within a period of 24 months from the date of completion of the IPO Capital Raising.
- One third to vest within 36 months from the date of completion of the IPO Capital Raising on 50m total discrete connections per day for no less than three (3) consecutive weeks and least 1m new devices interacting per week with a Buddy application for no less than three (3) consecutive weeks.

BUD management recommended these milestones, which were adopted by shareholders at the Potash Minerals AGM on 9 November 2015, as a transparent (and industry-recognised and standard) mechanism to gauge market traction in an environment where the Company had explicitly declared traffic and connection volume to be an initial priority, ahead of revenue and profitability.

Figure 5: Targeted performance metrics



Source: Company (October 2015 Presentation)

In July 2016, BUD reported that it had achieved the first performance milestone of 20 million discrete connections per day for three consecutive weeks (some 17 months ahead of schedule), with peak traffic during this three week period hitting 35.1m discrete connections per day. In the most recent reported quarter (1Q FY17), BUD reported peak traffic of 47.2m transactions per day (up 34% on the previous quarter).

Despite the increase in connections, September quarter service revenue of (only) A\$54k was virtually unchanged from June's A\$51k. More importantly, we suggest, the 12-month pipeline value (potential work) in the September 2016 quarter increased by 60% to A\$5.9m from A\$3.7m in the prior June quarter. In the September quarter Activities Report, management state that BUD is tracking ahead of plan for the key primary metrics - device and data volume growth, and secondary metrics - bookings and pipeline growth. At this juncture, management continues to view revenue as a tertiary function of volumes and booking growth, and accordingly management considers the September quarter revenue figure to be in-line with expectations.

Figure 6: Quarterly performance (3Q FY16-1Q FY17)

	3Q FY16	4Q FY16	1Q FY17
Peak connections (m/day)	9.6	35.2	47.2
12-month pipeline (A\$m)	2.4	3.7	5.9
Service revenue (A\$'000)	145	51	54

Source: Company, compiled by State One Stockbroking

Note: The March 2016 quarter (3Q FY16) was BUD's first full quarter of trading

Note: After the close of the September 2017 quarter (1Q FY17) BUD closed a customer deal with recreational vehicle manufacture Thor Industries valued at over A\$1.2m.

Parse on Buddy

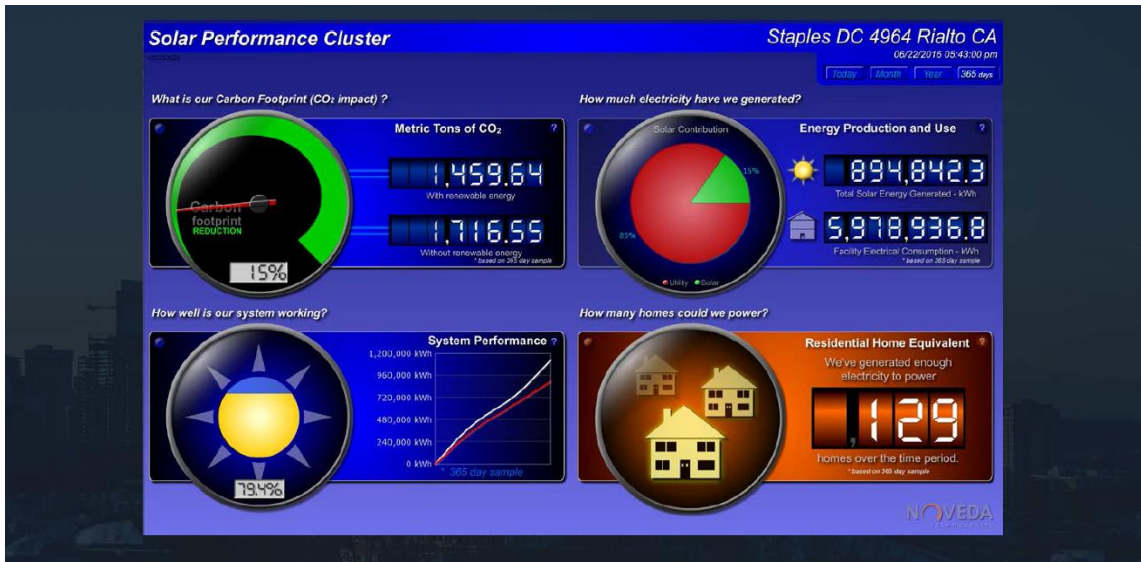
In October 2016, BUD launched a mobile application backend product (for developers of mobile apps on Google's Android and Apple's iOS based devices) to replace Facebook's Parse service which will be discontinued in late January 2017. BUD has been working with Facebook to ensure a premium and well-matched product, and has secured Facebook's permission to use the name and logo of their product as a migration option for developers. Facebook anticipates that over 1.1m mobile apps on Google's Android and Apple's iOS operating systems will need to find a new backend technology supplier. BUD expects peak traffic & migration (from third-party mobile application developer/owners) to "Parse on Buddy" in January/February 2017; BUD believes that this service will significantly move the group to meeting its second milestone - 500,000 new device connections with a Buddy application. BUD will offer the Parse service as a core component of its overall IoT device data management platform, meaning developers will have the choice of hosting their data in the US, EU, China, or Australia. At launch, BUD will maintain Facebook's revenue model on the platform, which offered free service up to 30 transactions per second. Above that, US\$100/month service charges apply for every 10 additional transactions per second (storage and bandwidth charges are additional). Taking guidance from the Facebook team, BUD intends, over time, to unify the pricing model with BUD's broader IoT platform pricing structure.

Proposed Noveda acquisition

In April 2016, BUD entered into an agreement to provide data capture, storage, and processing services to New Jersey-based Noveda Technologies - a leading North American energy/utility and resources monitoring company. In June 2016 BUD disclosed that it was in discussions regarding a revenue-based company acquisition of the group, with a proposed consideration capped at US\$24m (cash or optionally equity at BUD's election). At this juncture, the Noveda Acquisition is subject to a number of conditions, including the execution of formal binding documentation. Noveda's current customers include large multinationals such as Deutsche Bank, Honeywell, Prudential,

Rolls Royce, Avis Budget, Johnson Controls, as well as leading utilities PSE&G and Energy Ottawa. The largest opportunity is Noveda's contract with the New York State Energy Research and Development Authority (NYSERDA), which has a targeted value of US\$15-20m over the next three years. Noveda's management have stated that energy monitoring, verification, and controls, has a total addressable market of +US\$1bn in just NY State alone.

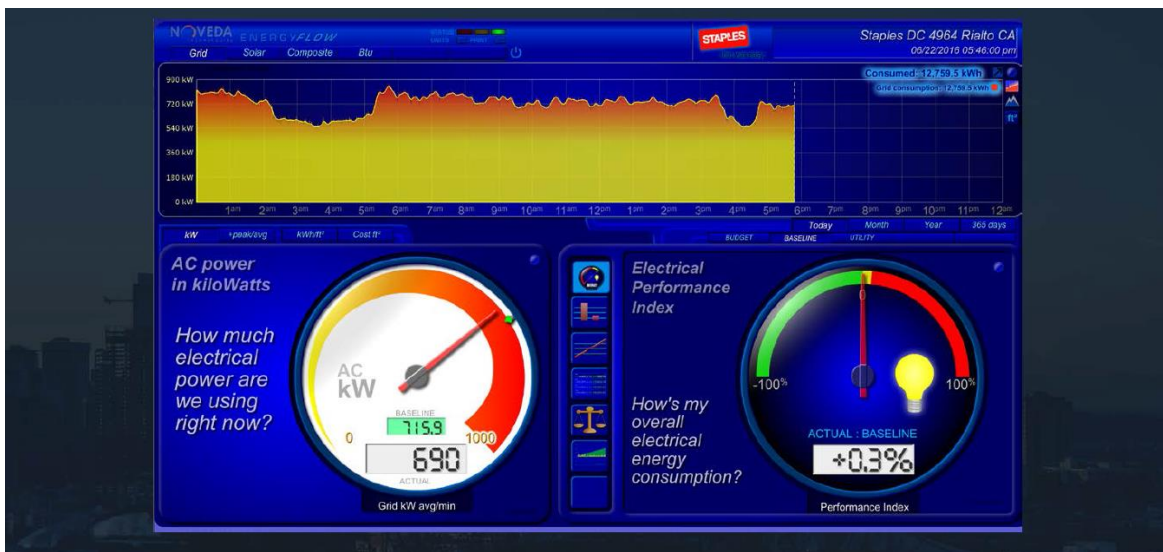
Figure 7: Example of Noveda product (real-time dashboard/output screen)



Noveda provides energy resource monitoring & verification solutions that will become the foundation of Buddy's "smart cities" vertical integration strategy. Note that these are real customer implementations of Noveda's front end experience + Buddy's backend data management functionality. These are live today. ¹⁰

Source: Company (June 2016 Presentation)

Figure 8: Example of Noveda product (real-time dashboard/output screen)



Noveda provides energy resource monitoring & verification solutions that will become the foundation of Buddy's "smart cities" vertical integration strategy. Note that these are real customer implementations of Noveda's front end experience + Buddy's backend data management functionality. These are live today. ¹¹

Source: Company (June 2016 Presentation)

Proposed Zentri acquisition

In June 2016, BUD also announced its intention to acquire (US and Australia-based) Zentri Inc. – an IoT security and device management company. The proposed consideration was for up to 300m BUD shares, predicated on Zentri contributing US\$14.4m in revenue by end calendar year 2017. In mid-October 2016, BUD announced that Zentri had notified BUD that it had made a decision to terminate discussions on the acquisition. Zentri has, however, reiterated their interest in continuing a business relationship with BUD (and ultimately with Noveda on completion of the acquisition).

Forecast revenue and profit profile

We view BUD’s acquisition strategy in a nascent IoT business environment as a positive. We believe that acquisitions can give the group capabilities / features / functionalities that customers require or demand, help position BUD as a “one-stop IoT shop”, bring in customers that otherwise might have taken several years to acquire, and lastly, bring in additional technical and marketing skills as well as co-opting potential competition down the road. While the failure to acquire Zentri’s technology is disappointing, we believe a successful Noveda acquisition could add significant mass to BUD’s operations, position the group in the key North American utility space, and fast-track top-line growth.

BUD indicates that Noveda’s existing customer contracts offer three-year out revenue potential of US\$15-20m; in addition, we note with interest that one of Novada’s contracts with Energy Ottawa can potentially generate some US\$5m in monthly revenue in 2021 (i.e., at the end of a five-year contract period).

Figure 9: Energy Ottawa – a key Noveda contract

Example: scope of monetization of monitoring & verification with major utility

Client company name	Energy Ottawa
Geographic region	Ottawa, Canada
Industry	Electricity distribution, energy generation, energy management services
Contract title	“Energy Monitoring Software and Services”
Scope of services provided	Monitoring & verification of electricity, water, steam and renewables; data analytics for all Energy Ottawa customers
Contract detail	Target 350,000 meters initially and then expand to all Provinces in Canada. Cloud based system
Contract term & traction	Five years – first 100 non-residential meters connected two weeks ago, expect 10,000 by early 2017 (of 100,000 non-residential meters in total; balance are residential meters)
Revenue indicators	Non-residential meter data management, monitoring & verification services targeted up to US\$5MM per month at contract maturity. Residential monitoring incremental to this.

Source: Company (June 2016 Presentation)

We forecast group service revenue of A\$2.6m in the current financial year (FY17E) ramping up A\$26m in FY18E (assuming a first full-year of contribution from Noveda). At the end of our explicit five-year forecast period, we forecast FY21E group service revenue of A\$173m, split roughly 75:25 between Noveda and BUD's existing IoT/Parse business.

- Our forecast Noveda revenue (Ottawa contact and Other contracts) of A\$27m in FY19E is based on BUD's indicated three-year out revenue for Noveda of US\$15-20m.
- Our forecast FY21E revenue of A\$80m for Noveda's Ottawa contract is based on BUD's indicated five-year out revenue potential of the Ottawa contract of US\$5m/month (=US\$60pa).

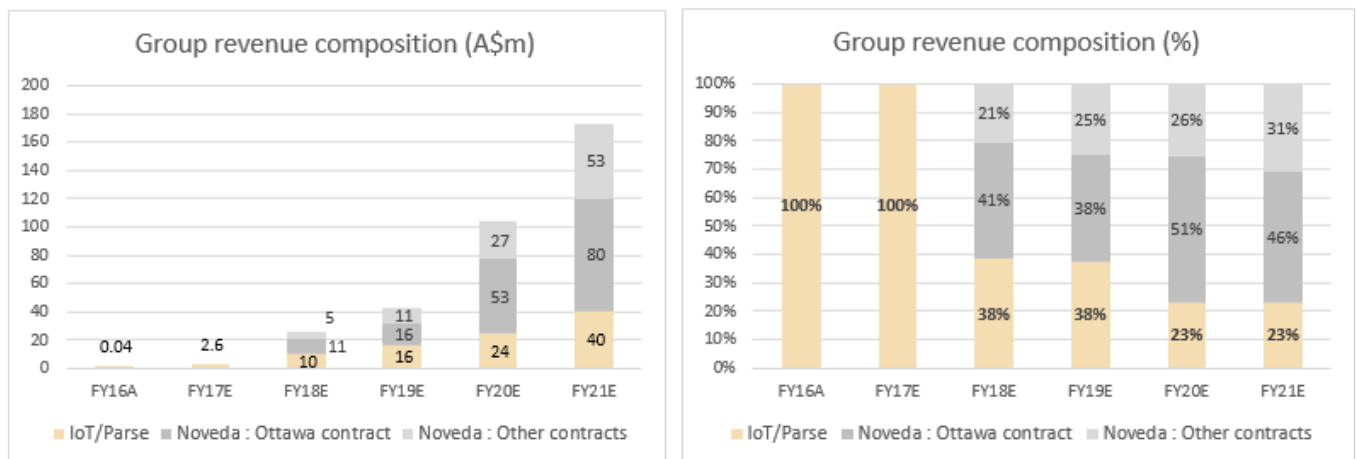
Figure 10: Forecast revenue, costs, and profits to FY21E

(A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E	FY21E
Service revenue - IoT/Parse	0.0	2.6	10.0	16.0	24.0	40.0
Service revenue - Noveda: Ottawa contract	-	-	10.7	16.0	53.3	80.0
Service revenue - Noveda: Other contracts	-	-	5.3	10.7	26.7	53.3
Group service revenue	0.0	2.6	26.0	42.7	104.0	173.3
Annual % change in revenue	-	-	918%	64%	144%	67%
Service costs	-	(1.3)	(14.3)	(23.5)	(54.6)	(86.7)
Admin/staff/corporate	(3.9)	(5.6)	(12.0)	(12.2)	(12.5)	(12.7)
IT/R&D /marketing	(0.9)	(1.1)	(4.0)	(4.1)	(4.2)	(4.2)
Total costs	(4.8)	(8.0)	(30.3)	(39.8)	(71.2)	(103.6)
EBITDA	(4.8)	(5.5)	(4.3)	2.9	32.8	69.7
Depreciation	(0.0)	(0.0)	(0.5)	(1.0)	(1.0)	(1.0)
Operating profit / (loss)	(4.8)	(5.5)	(4.8)	1.9	31.8	68.7
Service costs as % revenue	nc	nc	55%	55%	52.5%	50%
EBITDA margin	nc	nc	-17%	7%	31%	40%
Operating profit margin	nc	nc	-18%	4%	31%	40%

Source: Company, State One Stockbroking Forecasts

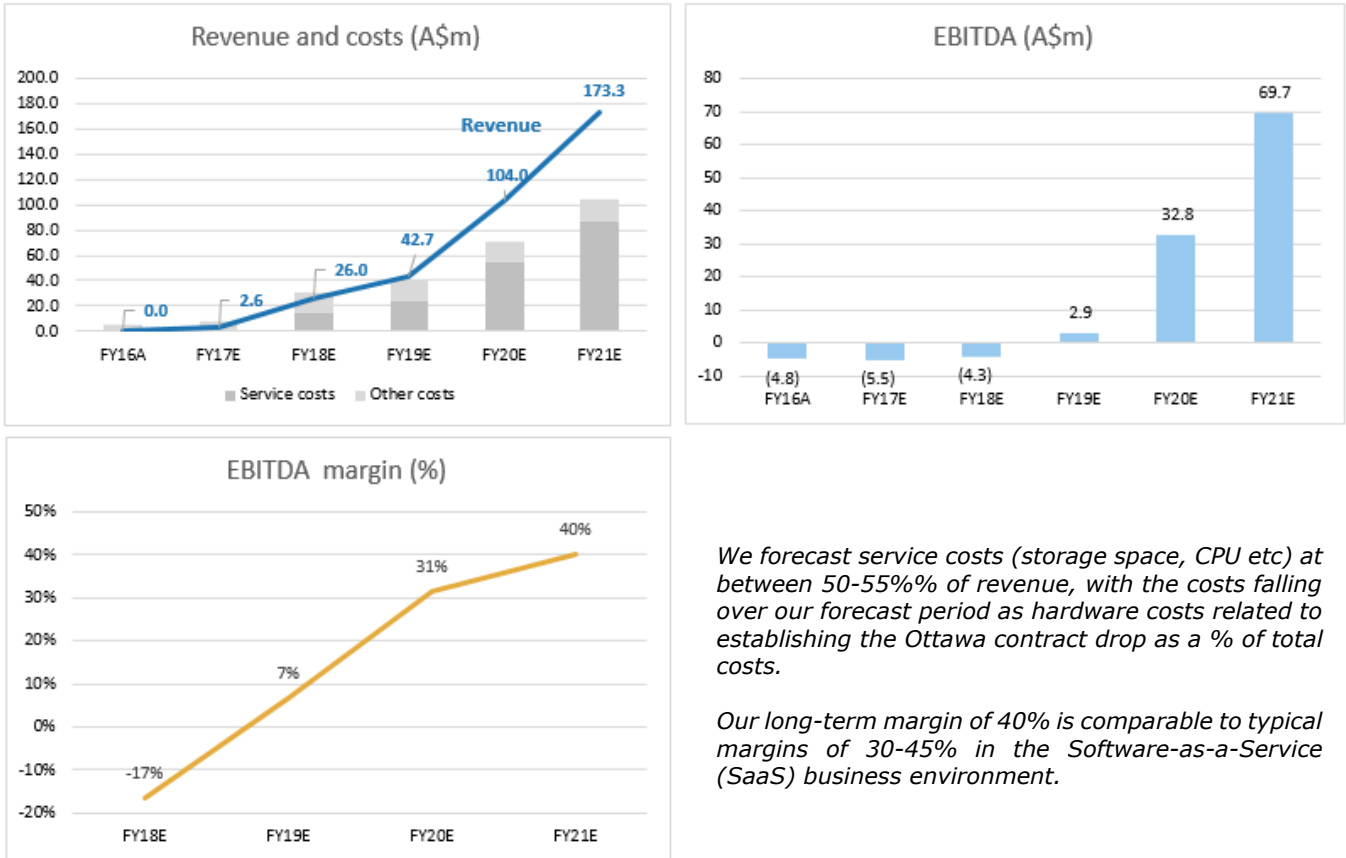
Note: For segmental purposes we label BUD's non-Noveda revenues as "IoT/Parse", and disaggregate the Noveda revenues into "Ottawa contract" and "Other contracts". We assume a constant US\$0.75 exchange rate over our forecast period.

Figure 11: Forecast revenue profile (FY17E-FY21E)



Source: Company, State One Stockbroking Forecasts

Figure 12: Forecast costs and EBITDA profile (FY17E-FY21E)



We forecast service costs (storage space, CPU etc) at between 50-55% of revenue, with the costs falling over our forecast period as hardware costs related to establishing the Ottawa contract drop as a % of total costs.

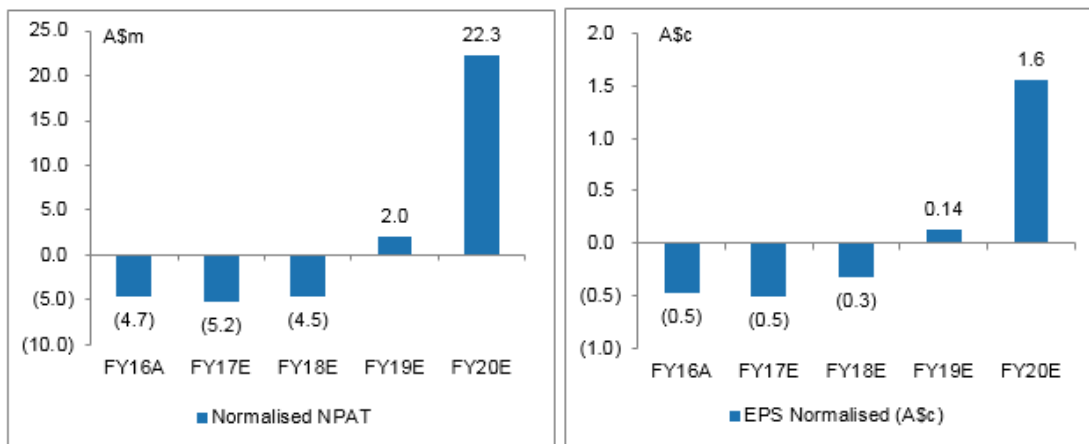
Our long-term margin of 40% is comparable to typical margins of 30-45% in the Software-as-a-Service (SaaS) business environment.

Source: Company, State One Stockbroking Forecasts

NPAT and EPS profile

We forecast a net loss after tax of -A\$5.2m in the current financial year (FY17E) and -A\$4.5m in FY18E. However, as the top-line grows over our forecast period, we forecast net profits turning positive in FY19E, rising to over A\$22m in FY20E. Mirroring this NPAT profile, we forecast EPS growing from -A\$0.5c in FY17E, to -A\$0.3c in FY18E, A\$0.14c in FY19E, and A\$1.6c in FY20E.

Figure 13: Forecast NPAT (A\$m) and EPS (A\$c)

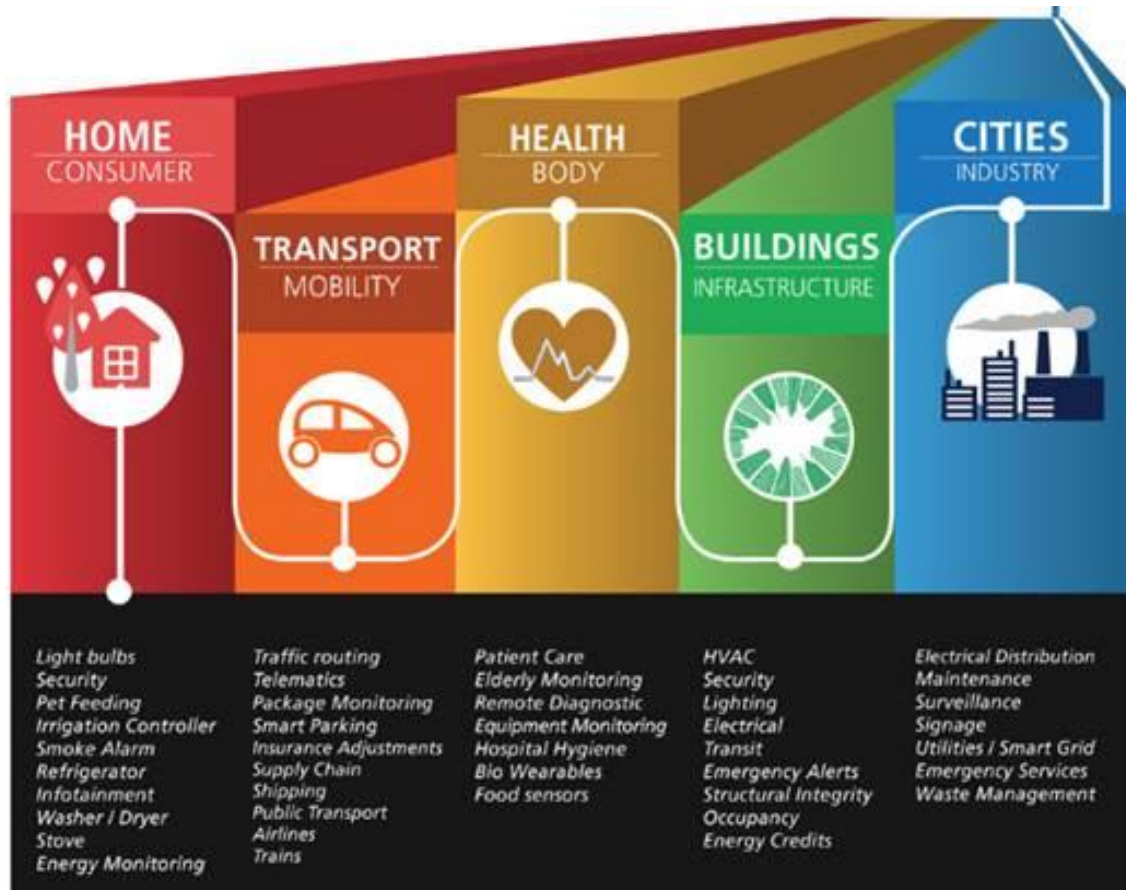


Source: Company, State One Stockbroking forecasts

IoT market

The IoT is a network of physical objects embedded with electronics, software, sensors, and network connectivity, which enables these objects to collect and exchange data. The applications are diverse (see graph below)and things can get really interesting when these connected devices and services start creating compound applications within their own verticals and across industries.

Figure 14: Examples of IoT applications








Source: Postscapes

How big can it get?

Industry analysts Postscapes indicates that in the not-to-distant future, hundreds of millions of individuals and businesses, with millions of smart, communicating devices, will stretch the boundaries of current information systems with massive implications for how we work, learn, entertain, and innovate. In a recent Forbes article "[Roundup of Internet of Things Forecasts and Market Estimates, 2016](#)", global market intelligence firm IHC predicts that the IoT market will grow from an installed base of 15.4 billion devices in 2015 to 30.7bn devices in 2020, and 75.4bn in 2025. In the same article, Bain predicts IoT total revenue of US\$470bn by 2020, with some 20% (US\$90bn) attributable to BUD's target market i.e., cloud, applications, analytics and data services. Relative to this, our forecast FY21E revenue for BUD of A\$173m (US\$130m) has, we suggest, significant upside potential.

Board of Directors

Figure 15: Board of Directors (June 2016)

Board of Directors	
 Rick Borenstein (Chairman)	Chairman – Sequoia Partners, Inc.; Silicon Valley investor and VC fund LP.
 David McLauchlan	CEO @ Buddy Platform, Inc.; 11 years @ Microsoft Corporation; Technical Advisor @ Bill & Melinda Gates Foundation.
 Alex Gounares	CEO @ Polyverse Corporation; ex CTO & EVP @ AOL; ex VP @ Microsoft Corporation & Technical Advisor to Bill Gates.
 John van Ruth	CEO @ Operation Flinders Foundation; Council Member @ AICD; ex CFO @ Coopers Brewery; ex CIO @ RAA; ex CIO @ Adelaide Bank
 Ananda Kathiravelu	Managing Director @ Armada Capital Pty. Ltd.

Source: Company (June 2016 Presentation)

Note: In October 2016, Mr Richard Jacroux joined BUD as its Chief Financial Officer and Chief Operating Officer.

Capital Structure

Figure 16: Capital Structure as at September 2016 (millions of shares)

	Quoted	Un-quoted	Total
Ordinary Shares	304.5	500.0	804.5
Options (10c) Exp 17 Nov 2020		2.8	2.8
Options (12.5c) Exp 30 Nov 2017		40.0	40.0
Options (3c) Exp 30 Nov 2017		12.5	12.5
Incentive rights issued to employees		32.1	32.1
Performance Rights		32.8	32.8
Performance Shares		95.5	95.5
Fully diluted total			1,020.2

Source: Company, compiled by State One Stockbroking

Note: 285m shares and 2.4m 10c options will be released from escrow on 17 December 2016. BUD will apply for quotation of the ordinary shares that are to be released from escrow with ASX at this time. Escrow provisions remaining (after 17 December) are table below:

Securities	Escrow period
215,041,606 Fully paid ordinary shares	24 months from date of quotation on ASX
52,902,479 Options	24 months from date of quotation on ASX
26,494,552 Performance Rights	24 months from date of quotation on ASX
93,000,000 Performance Shares	24 months from date of quotation on ASX

General Advice Warning

The contents of this document have been prepared without taking account of your objectives, financial situation or needs. You should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

Whilst State One Stockbroking Ltd believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One Stockbroking Ltd or any officer, agent or employee of State One Stockbroking Ltd. If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the financial product) and consider it before making any decision about whether to acquire the financial product.

Disclosure

The directors and associated persons of State One Stockbroking Ltd may have an interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products.

This report was prepared solely by State One Stockbroking Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation by State One Stockbroking Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. This research at all times remains the property of State One Stockbroking Ltd. And as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from the Executive Director of State One Stockbroking Ltd.

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Peter Curtis
Head of Institutional Sales
Phone: +61 2 9024 9106
pcurtis@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

Alexander Bax
Equities Advisor
Phone: +61 8 9288 3340
abax@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au