



Updater Inc. (UPD.ASX)

Third pilot sets up 2017 as pivotal year

Event:

- Announcement of third pilot; Company update.

Investment Highlights:

- Updater (UPD) has announced its third pilot, being with Capital One Financial Corporation (Capital One), completing the Company's objective of three pilots in 2016.** The company now has pilots with insurer Liberty Mutual, a group of moving companies, and now major retail bank Capital One. UPD expects the Capital One pilot to go live in Q1 CY17, following the previous launch of the Liberty Mutual and moving companies pilots, which went live in October.
- Pilots to provide UPD with diversity across industries as well as marketing approach.** Each of the pilots will provide UPD with an opportunity test the platform across different marketing approaches be it nationwide (Liberty), retail local focus (Capital One), or one-off transactions (moving).
- Capital One opens up retail market for UPD.** Capital One is a critical pilot for UPD in that it is essentially a retail vertical. The pilot is expected to focus on the bank's savings and investment products, and provide relevance for not only other retail banking products (credit cards) but other retail verticals such as groceries, pharmacies, furniture, consumer electronics and department stores.
- Goals of pilots – prove the value of the Updater product, and price it correctly.** Pilot results will enable UPD to better negotiate with businesses going forward. The pilots will also allow UPD to gather learnings and optimize marketing campaigns - what works and doesn't.
- Results of first pilots likely mid-2107.** UPD is adopting a rigorous approach to the pilots, with control and study groups, and aims to ensure high statistical significance and confidence prior to releasing results. We believe the company is most likely to announce results following completion of the pilots, which will be more likely to be solid and robust as opposed to "results so far".
- Market share goal of 15% by end 2017 remains on track.** Management reiterated that it is on track to achieve 15% market share target by the end 2017. Last reported share was October when the company surpassed 6.0% of moves.
- Well cashed.** The company raised A\$30M in September, in turn increasing cash position to ~A\$45M. This will provide the Company with ample funds (most recent quarterly indicated burn of ~US\$400k/month) as it continues to hire staff across its sales, engineering, product, and support teams.

Valuation and Earnings:

- Our valuation of UPD remains \$0.90/CDI.** We have included the impact of the CDIs issued in the \$30M placement, while reducing our risk factor from 50% to 45% based on the company's signing of three pilots and stronger balance sheet. Our valuation is based on a PE multiple, on the earnings UPD could achieve *only* from the insurance vertical.

Recommendation:

- We maintain our Speculative Buy recommendation and 12-month price target of \$0.90/CDI.** The obvious catalyst is positive results of the pilot programs, which considerably de-risks the investment proposition. 2107 shapes up as a pivotal for UPD.

Recommendation	Speculative Buy
Previous	Speculative Buy
Risk	Very High
Price Target	\$0.90
Previous	\$ 0.90
Share Price (A\$)	0.460
ASX Code	UPD
52 week low - high (A\$)	0.165-0.65
Valuation	\$0.90/share
Methodology	PE multiple
Capital structure	
CDIs on Issue (M)	488.9
Options (M)	103.1
Warrants	5.9
Market Cap (A\$m)	224.9
Net (Debt)/Cash (A\$m)	45.0
EV (A\$m)	179.9
12mth Av Daily Volume ('000)	644

Board	
David Greenberg	Executive Chairman
Ryan Hubbard	Executive Director
Grant Schaffer	Non-Executive Director
Antony Catalano	Non Executive Director

Substantial Shareholders	
David Greenberg	24.9%
Ryan Hubbard	8.9%
Grant Schaffer	6.4%
Thorney Investment Group	5.3%

Share Price Graph



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Foster Stockbroking acted as Sole Lead Manager to the A\$30M placement of 60M UPD CDIs at A\$0.50 in September 2016. Foster stockbroking received fees for the service.