



9 Spokes International Ltd (9SP)

All Contracts 'Live', Momentum Building

Event:

- **Roadshow following quarterly activity and cash flow report. Confidence in management following completion of key milestones & robust sales pipeline.**

Investment Highlights:

- **Adoption rates by Barclay's end-users, a critical data point.** With the release of 9SP quarterly cash flows (Jan), management commented they will provide its first customer, on-boarding update, at the end of February. Thereafter, 9SP will report quarterly customer metrics. Albeit small numbers today, most importantly Barclays are ramping-up promotional activity in mid-February. We understand Barclays are looking to sign 20k clients to reach the 'tipping point', which will occur over time.
- **With all channels 'live' heading into Christmas, 9SP business development sales pipeline has experienced a spike in inbound inquiries,** coupled with its existing c.10 potential channel partner prospects. Notably there has been sizeable US and European banks with increased interest in the 9SP platform. As mentioned previously, 9SP is in advanced talks with at least two US banks that could lead to additional contract wins in the next 3-6 months. We note that 9SP is in a much stronger negotiating position than when they signed Barclays and we are optimistic that the financials of the contract will be more favorable.
- **Today, 9SP has cash of c.NZ\$16.5m.** In the Mar-17 quarterly, 9SP will benefit from the receipt of NZ\$1.2m Barclays implementation fee, plus min monthly recurring license revenues kick-in for all channel partners (c.NZ\$0.75m per quarter). 9SP plan to increase staff numbers by c.10% q-o-q to Mar-17, (today c.80 employees) increasing costs whilst advertising & marketing spend is planned to increase by \$440k with the launch of its 9Spokes direct platform. We forecast net operating cash flows in the Mar-17 quarterly of c.NZ\$-3.4m and Jun-17 of c.NZ\$-4.4m (assuming no one-off license fees are generated in the June quarter, through signing of a new channel partner).
- **9SP has launched its direct platform in the UK, with its US launch to follow (www.9spokes.com).** We see this as a clear precursor to winning a US channel partner. The marketing campaign is planned to be online focused, with negligible spend. A conservative estimate of the US market opportunity is c.+US\$300m = 29m SME x 5% penetration x (\$30 x 12 mths x 20%) x 3 apps. 9SP is confident that the launch of its direct platform, will accelerate its business development efforts in the US. Key advantages of 9SP US market entry are its existing relationships with app providers and deployment at low incremental cost. Any success in the US market is upside to our existing valuation.

Earnings, Valuation & Recommendation:

- **We maintain our BUY recommendation and our valuation is unchanged. Our valuation is \$0.47/share and is based on the low-end of the range for all current contracts, except Barclays.** With Barclays, we have modelled a 10% penetration of installed SME client base, utilizing 3 apps generating \$0.33/share.
- **Catalysts for the share price include:** 1) end-user customer adoption, 2) additional channels in existing jurisdictions; and 3) additional channels in new jurisdictions.

Recommendation	
Previous	BUY
Price Target	\$ 0.47
Previous	\$ 0.47
Share Price (A\$)	\$ 0.18
ASX Code	9SP
52 week low - high (A\$)	0.12-0.20
Valuation	\$0.47/share
Methodology	Risked DCF
Risk	Very High
Capital structure	
Shares on Issue (M)	403.0
Options (M)	53.5
Diluted Market Cap (A\$m)	82.2
Net Debt/(Cash) (A\$m)	-15.5
EV (A\$m)	66.7
12mth Av Daily Volume ('000)	520

Shareholders

Adrian Grant	20.4%
Mark Estall	20.4%
Harrogate	7.3%
Brendan Roberts	3.7%
Tappenden	2.1%
Paul Reynolds	1.1%

Board

Paul Reynolds	Non Executive Chairman
Mark Estall	Executive Director & CEO
Thomas Power	Non Executive Director
Wendy Webb	Non Executive Director

Share Price Graph



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The analyst does not own 9SP securities

Foster Stockbroking was the sole lead manager to the IPO of 125 million shares at \$0.20 per share to raise \$25m and received fees for this service