

CROWD MEDIA (ASX: CM8)

TECHNOLOGY & ECOMMERCE



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Outlook - Speculative BUY

Through economic uncertainty driven by COVID-19, Crowd Media (ASX: CM8) has successfully undergone a major business transformation where its business has adapted well to economic conditions. A \$2.8 million financial turnaround has been driven by core management changes that have accelerated Crowd's its online retail divisions while making major inroads towards their Conversational Commerce project that has delivered a beta product 12 months ahead of schedule while signing various strategic partnerships in the artificial intelligence sector that validate the potential of their game-changing technology.

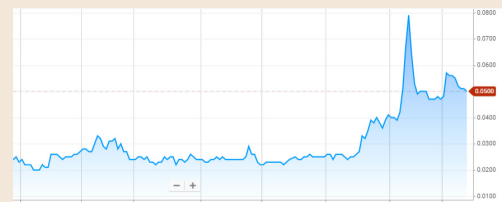
Key Highlights

- All Horizon 1 goals met, highlighted by \$2.8m financial turnaround for FY20;
- Tech startup profile but generated \$16.5m revenue in FY20;
- Crowd Media now underlying EBITDA positive;
- Beta version of Conversational Commerce launched 12 months ahead of schedule;
- Clear pathway established for Conversational Commerce tech in 2022;
- Critical strategic partners secured scalable Talking Head platform;
- \$1.67m debt cleared for healthy financial position as expenses continue to decrease;
- Fintech brand partnerships flagged for 2021 with rising demand from core audience;
- Crowd Direct delivered \$317k sales in Q1 FY21 from a standing start;
- Online retail booming as a result of COVID-19 and pandemic lockdowns;
- AI Chatbot capabilities increasing every month, now handling 65+% of queries;
- Takeover Target: Low to Medium

Date 11 Dec 2020

Price (11 Dec): \$0.050
Ticker: ASX: CM8

52-Week range: \$0.011-\$0.100
Market cap (AUD): \$25.8m
Shares on issue 516m



CM8 share price since Mar 2020

| | FY20 | FY19 | FY18 |
|---------------|-------|-------|--------|
| Revenue (\$m) | 16.4 | 23.92 | 38.56 |
| NPAT | -1.91 | -4.79 | -26.04 |



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SCORE OUT OF 100

| | |
|----------------------------|-------------|
| Dividend Score | 0 |
| Quality | 27.4 |
| Price Momentum | 86.2 |
| Maturity Score | 65.1 |
| All Weather Score | 21.8 |
| Credit Score | 48.3 |
| Earning Score | 28.9 |
| Growth | 74.8 |
| Emerald Stock Score | 72.2 |

Emerald Financial has maintained its previous rating on CM8 as 'Speculative Buy' at the higher entry price on grounds that the business transformation is a further six months mature where Senior Management has delivered tangible financial improvements through new revenue streams. The \$2.8m turnaround in their FY20 results for Crowd Media to become underlying EBITDA positive was the initial focus of Chairman Steven Schapera after his appointment in September 2019 can be applauded.

The significant improvement in Crowd's financial health can be attributed to stringent management that has eradicated legacy debt from the business while leveraging their AI Chatbot technology to advance their Conversational Commerce deeptech project. Through this technology, Crowd has established a unique network of strategic partners around the world that have the expertise to produce Crowd's stated 2022 goal of 'Talking Heads', representations of celebrities and influencers that can converse with followers in real time. With a beta version of this Talking Head technology launched 12 months ahead of schedule in November 2020, Crowd has made it clear that they

have the resources to develop this technology further which will create commercial opportunities across sales, marketing, customer service, education, and more.

In refining this technology and their artificial intelligence capabilities, Crowd has maintained their consistent view that the \$6.5 billion influencer marketing industry is undergoing a 'tectonic' shift. Once commercialised, this Talking Head technology will enable influencers to have thousands of conversations with fans at once, in multiple languages and all in real time to create game-changing commercial opportunities for them and the brands they promote.

Company Summary

Crowd Media (ASX: CM8 | FWB: CM3) is an eCommerce and artificial intelligence company that specialises in digital marketing with a social network of more than 10,000 influencers around the world.

With offices in Australia, Amsterdam and London, Crowd Media's services are primarily targeted towards European markets where they leverage their social media network which has a distinct alignment with European consumer behaviour, in particular with millennials.

Since commencing a business transformation in September 2019, Crowd Media's business model is similar to that of a tech startup but uniquely different in the sense that their legacy business (where the newest application of their technology is derived from), is revenue generating thereby covering the expenses associated with tech development.

From the revenue generating side of the business, Crowd's Q&A chatbot technology is able to draw upon artificial intelligence to answer customer questions in real time (text only). Crowd Direct enables Crowd to partner with popular brands to sell goods and services direct to consumers, leveraging their influencer network and eCommerce channels.



Crowd Direct largely draws upon experience from Chairman Steven Schapera who is best known as the Founder of cosmetics brand BECCA which he exited in 2016 via sale to Estee Lauder for \$300m. Within Schapera's investment consortium is Non-Executive Director Robert Quandt who previously held COO/CFO positions at Invincible Brands, a Berlin-based digital marketing agency whose annual revenues grew from \$11m to \$160m during his tenure, and advised Linde AG on their €6bn Americas business.

Over the coming 12 months, Crowd has flagged plans to expand Crowd Direct beyond its brand partnerships that currently sell beauty products, hygiene products and homewares into the fintech and insurtech sectors - a specialty field of CEO Domenic Carosa who is well known to have been an early Bitcoin investor.

Conversational Commerce - Merging Artificial Intelligence with eCommerce

Since commencing their business transformation in September 2019, Crowd Media has been vocal in their 3-year plan which culminates in 2022 with the launch of the commercialisation of their Conversational Commerce vision.

Conversational Commerce is a concept which was identified by Chairman Steven Schapera when he began noticing changes in the influencer marketing industry where the rise of social influencers across various social media platforms and increasing interaction with followers meant there was a gaping whole in the market. Consequently, no such technology existed to facilitate manual labour required for influencers to have 1-on-1 conversations with their followers in real time.

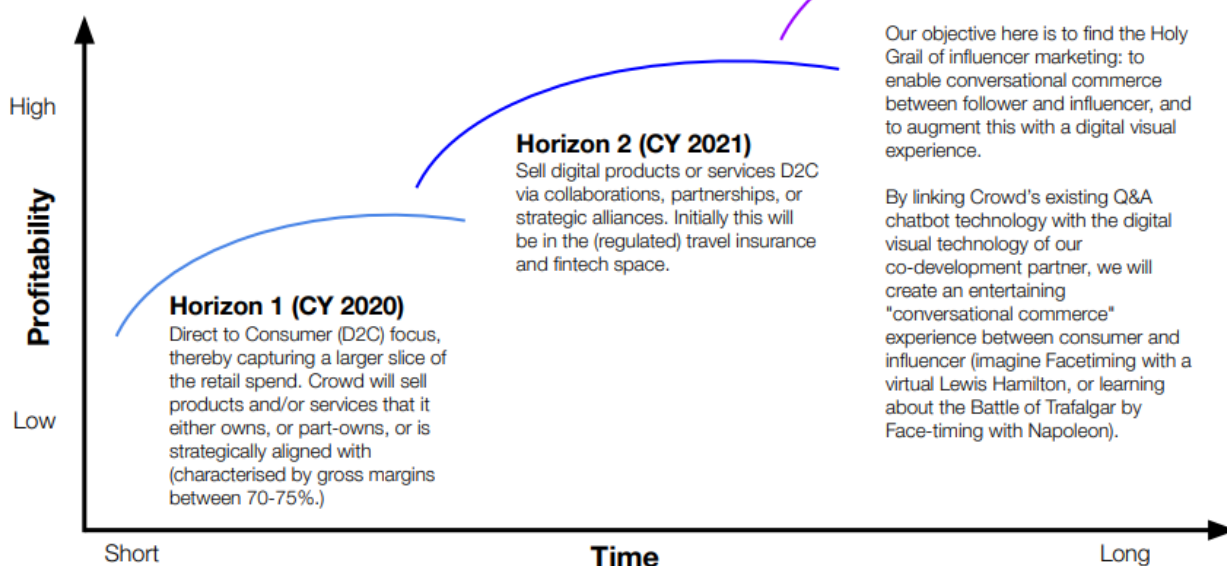
The world's most popular celebrities, for example, receive thousands of messages from fans on Facebook, Twitter and Instagram but simply cannot respond to them all. At the same time, all of these celebrities have corporate sponsors and are brand ambassadors which means there is a golden opportunity for them to promote these brands to followers that actively want to interact or converse.

Enter Steven Schapera. What if technology existed where celebrities could have these conversations with fans, appear authentically with visuals, so you're not just talking to a social media team, and have it all driven by artificial intelligence to enable hundreds of conversations to take place to respond to all of those fans.

Horizon Model

McKinsey 3 horizon model

3 Horizon growth strategy



Since Schapera exited BECCA Cosmetics in 2016, he had been active in the influencer marketing space through ties to German firm Invincible Brands. During that time, Schapera was actively seeking pathways to bring the concept of Conversational Commerce to fruition which led to his European Consortium investing \$2.7m in Crowd Media and accepting the Chairman position on the Crowd's Board of Directors.

In commentary regarding his investment in Crowd, Schapera has commented that he was specifically drawn to Crowd's Chatbot technology where investing in Crowd saved his Consortium more than \$10m in high risk research and development to build the tech themselves.

This specific Chatbot technology has been developed by Crowd over the past decade where users can ask questions which Crowd's AI-driven tech can respond to in real-time, and currently answers more than 65% of questions without human involvement. The tech is core to wider applications which were showcased to the market in November 2020 when Crowd launched a beta version of Conversational Commerce where a Talking Head (representing a customer service representative), was able to assist customers identify skincare products that can solve beauty needs and push them through to checkout.

In order to advance the tech towards commercialisation, Crowd has been actively securing strategic partners in 2020 that have the tech that will enable Crowd to produce a scalable solution for the thousands of celebrities and social influencers. These include investments in Forever Holdings which can provide visual construction similar to deepfake technology, a joint venture with Zoe01 to produce Talking Heads within days instead of the current method that instead takes weeks, and Uneeq to replicate the Chatbot technology across different functions such as sales, customer service or education etc.

Key to Crowd having the resources to develop their Conversational Commerce strategy is the \$16.5m revenue generated in FY20, positioning Crowd at a significantly stronger starting point than most tech companies building new technology.

Financial Performance and FY20 Turnaround

Financial Performance and FY20 Turnaround

Upon his appointment as Chairman, Schapera's first priority was to turnaround Crowd's financial situation following a period of regulatory changes in the tech space which significantly impacted Crowd's business.

On arrival, Schapera immediately addressed the \$4.7m net loss incurred for FY19 with a business restructure that resulted in a significant headcount reduction, only retaining staff that would contribute to their 3 Horizons strategy, while launching the Crowd Direct division which sells high-margin goods and services direct to millennials without Crowd taking on any direct risk through their commission-based terms with brand partners.



Statement of profit or loss and other comprehensive income - June 2020

| | Consolidated | |
|--|--------------------|--------------------|
| | 2020 \$ | 2019 \$ |
| Revenue | | |
| Revenue from continuing operations | 16,480,683 | 23,918,776 |
| Cost of sales | (4,642,716) | (7,167,258) |
| Gross profit | 11,837,967 | 16,751,518 |
| Other income | 22,000 | - |
| Interest revenue calculated using the effective interest method | 327 | 1,991 |
| Net fair value gain on financial assets | - | 106,902 |
| Expenses | | |
| Marketing | (4,375,121) | (6,993,715) |
| Administration and other expenses | (1,433,995) | (2,774,060) |
| Consultants | (1,234,066) | (2,280,087) |
| Depreciation and amortisation expense | (598,156) | (209,128) |
| Employee benefits expense | (5,176,636) | (8,663,575) |
| Travel and accommodation | (97,305) | (407,662) |
| Product development | (11,051) | (143,465) |
| Share-based payment | (302,488) | (24,750) |
| Allowance for expected credit losses | 3,197 | (1,158,485) |
| Net fair value loss on financial liabilities | (303,902) | - |
| Finance costs | (899,679) | (582,894) |
| Loss before income tax benefit | (2,568,908) | (6,377,410) |
| Income tax benefit | 654,348 | 1,581,426 |
| Loss after income tax benefit for the year attributable to the owners of Crowd Media Holdings Limited | (1,914,560) | (4,795,984) |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Foreign currency translation | 57,764 | 511,227 |
| Other comprehensive income for the year, net of tax | 57,764 | 511,227 |
| Total comprehensive income for the year attributable to the owners of Crowd Media Holdings Limited | (1,856,796) | (4,284,757) |

While Crowd Media presents many similarities to other tech startups which often take years to start generating revenue, the Company has optimised its revenue streams under the restructure to have delivered on Schapera's Year 1 priority - in which Crowd Media was underlying EBITDA positive for FY20, representing a \$2.8m improvement on the prior year from a \$4.7m net loss in FY19 to a 1.9m loss for FY20.

Although revenue has decreased amid regulatory headwinds which affected Crowd's legacy businesses which no longer incur notable operating expenses,

the \$2.8m EBITDA and NPAT improvements have positioned Crowd well to advance the next stages of Conversational Commerce.

Following the release of their beta Talking Head, the Company successfully raised \$4m from institutional investors while attracting corporate interest in the tech. Subsequently, Crowd was able to clear \$1.67m of secured legacy debt (Billfront Facility), removing \$180k in annual interest expenses and \$20k of admin expenses from Crowd's balance sheet.



| | 2020 \$ | 2019 \$ | Increase/ (decrease) \$ | Percentage change % |
|---|--------------------|--------------------|-------------------------------|---------------------------|
| Net profit / (loss) after tax ('NPAT') | (1,914,560) | (4,795,984) | 2,881,424 | (60%) |
| Add back: income tax benefit | (654,348) | (1,581,426) | 927,078 | (59%) |
| Add back: finance costs | 899,679 | 582,894 | 316,785 | 54% |
| Deduct: interest revenue | (327) | (1,991) | 1,664 | (84%) |
| Add back: depreciation and amortisation | 598,156 | 209,128 | 389,028 | 186% |
| EBITDA | (1,071,400) | (5,587,379) | 4,515,979 | (81%) |
| Add back: allowance for expected credit losses | (3,197) | 1,158,485 | (1,161,682) | (100%) |
| Add back: share-based payments expense | 302,488 | 24,750 | 277,738 | 1122% |
| Add back: restructuring and financing costs | 605,265 | 1,590,620 | (985,355) | (62%) |
| Add back: net fair value loss on derivative financial liabilities | 303,902 | - | 303,902 | - |
| Effects of exchange rate changes | 4,315 | 164,915 | (160,600) | (97%) |
| Underlying EBITDA | 141,373 | (2,648,609) | 2,789,982 | (105%) |

Expenses are expected to further decrease from April 2021 onwards when 1,700 convertible notes (\$1,000 face value each) on issue will be converted to CM8 stock and alleviating Crowd of 10% annual interest on the face value of those notes.

While Crowd's Q&A division has continued generating revenue to fund their artificial intelligence development, the Crowd Direct division has also been building momentum over the past 12 months to have delivered \$317k revenue for Q1 FY21 from a small number of brand partnerships where Crowd has targeted high-margin products on re-seller terms.

Q2 FY21 is expected to deliver significantly stronger revenues with the period encapsulating Black Friday, Cyber Monday and Christmas - retail events that Crowd has actively promoted across its eCommerce channels. Further strengthening their revenue streams, Crowd was also able to capitalise on a restructure of Invincible Brands which enabled Crowd to purchase the I AM KAMU jewelry brand for just €1 in September 2020, securing higher reseller margins in exchange for 12 months of profit sharing. As part of the purchase, Crowd intends to rollout influencer marketing campaigns for KAMU, whose watches retail around €99 each. The watches will be sold throughout Europe using similar influencer marketing tactics that proved

highly successful in the German market.

Crowd Direct and the COVID-19 Retail Market

12 months since the establishment of Crowd Direct, the division has proven a success on three key fronts.

Firstly, it has leveraged Schapera's extensive networks in the consumer goods market for Crowd to secure London Labs, I Am Kamu, KINN Living, Vital Innovations, MD Complete and Teadora. Through these partnerships and Crowd's expertise in eCommerce channel marketing, Crowd has been able to significantly increase the market reach of these brands while securing high-margin reseller terms on goods sold without the need to take on inventory or manufacturing risk.

Secondly, the online retail market has been booming since Crowd launched the Crowd Direct division in September 2019. While the onset of a pandemic in 2020 could not have been foreseen, Crowd Direct has been a beneficiary from population lockdowns which led to major booms in online retail spending as reflected in FY20 earnings of ASX-listed retailers.

Thirdly, it has become clear how Crowd Direct will be integrated into Crowd's wider 3 Horizons



| FY20 Retail Company Earnings | | | | | |
|------------------------------|----------|---------------|--------------------|--------------|-------------------|
| Company | ASX Code | Revenue (\$m) | Revenue Change (%) | EBITDA (\$m) | EBITDA Change (%) |
| Kogan.com | KGN | \$768.9 | 39.3% | \$46.5 | 54.5% |
| JB Hi-Fi | JBH | \$7,918.9 | 11.6% | \$486.5 | 30.5% |
| Breville | BRG | \$952.2 | 25.3% | \$113.1 | 16.2% |
| Adairs | ADH | \$388.9 | 12.9% | \$60.7 | 39.7% |
| Baby Bunting | BBN | \$405.2 | 11.8% | \$33.7 | 24.1% |
| Temple & Webster | TPW | \$176.3 | 74.0% | \$8.5 | 483.0% |

strategy as the market has now better understood what Conversational Commerce really means. This understanding has been catalysed in part by the beta launch of 'Emma' in November 2020.

As a visual representation of a customer service representative, Emma works 24/7 at MD Complete's online store where she is able to converse with customers to identify their skincare needs before recommending specific products that solve those needs.

While there is still work to be done to develop Emma, who is not based on real-life celebrities the way Conversation Commerce is aiming towards, it highlights how the tech can be used to drive sales as one of its functionalities. As the tech progresses, Crowd will be able to reduce reliance on human interaction from their network of more than 10,000 social influencers that they engage to promote their brand partner products, and instead have Ai-driven tech do it for them once they create the Talking Head for each influencer.

To have generated \$317k revenue for Q1 FY21, the Crowd Direct model is proving successful but management has stressed that the revenues generated are not reflective of the division's true potential. This is primarily based on the fact that Crowd generally undertakes 6 months of market research upon the commencement of a brand partnership where the Company will test different messaging strategies in small markets to identify the best way to rollout campaigns across their wider European network.

An example may be where millennials in the North of Italy may be more responsive to male influencers while those in Southern Italy are more responsive to female influencers.

This testing process enables Crowd to log core demographic and response data into their artificial intelligence network which drives their Chatbot technology and will be most valuable when Crowd pulls certain levers that increase the marketing activity for certain brand partners in new markets.

For this reason, Senior Management at Crowd have repeatedly commented that Crowd is not a revenue company at the moment, implying that revenues are not the core focus at this stage of their 3 Horizons strategy, despite generating \$16.4m total revenue through FY20.

With its first year of inception having focused on consumer goods brand partners that have leveraged Schapera's extensive professional network, Crowd Media has flagged CY2021 as the year that they expand Crowd Direct into services. In particular, Crowd has flagged the fintech and insuretech spaces as a key focus which immediately draws attention to CEO Domenic Carosa's background.

Having founded Crowd Mobile in 2009, Carosa has extensive experience in tech business transformation. This included developing Destra, a websites business he founded as a teenager, into Australia's second largest web hosting company to be worth more than \$100m which also saw him become the youngest CEO



of an ASX-listed company at 25. Following his exit from Destra, Carosa founded Crowd Mobile as well as the Future Capital Development Fund for investing in tech startups, and the Future Bitcoin Fund in 2014 - a time when Bitcoin (BTC) was trading at less than USD \$500.

Carosa is also the Founder and Chairman of cryptocurrency company Banxa which is expected to list on the Toronto Stock Exchange in 2021.

Despite his dual-positions leading Crowd and Banxa, Crowd has not made any reference to cryptocurrency involvement regarding the fintech brand partners they intend to bring online however through his background, Carosa is extremely well connected in the space globally and will be able to identify high-margin services attractive to the Crowd Direct model.

What we might expect from Crowd

Credit has to be given to Crowd for turning around a declining business model which reported net losses of \$4.7m and \$26m in FY19 and FY18 respectively.

Since the business transformation strategy was introduced, Crowd has implemented a business restructure that has enabled the Company to emerge to being underlying EBITDA positive for FY20 with a \$2.8m improvement in their bottom line. However, as Schapera has commented in his regular updates to shareholders, the job is only half complete.

The past 12 months have shown that Management is fully committed to the 3 Horizons strategy and have now built a solid foundation which has created a clear pathway to commercialising their Conversational Commerce vision and the following areas identified as key areas that Emerald Financial is anticipating further newsflow around.

Tech-focused Strategic Partners

The strategic partners which Crowd has assembled over the past year all have major roles in bringing

together their Conversational Commerce vision. Forever Holdings brings tech to create visual representations, Zoe01 brings a partner that can help scale that tech so that Crowd can produce unique Talking Heads within days, a process that normally takes weeks. And Uneeq brings application IP to the table with their tech already used for customer service and support where Crowd can draw upon this solutions architecture for their own sales-focused conversations. With the creation infrastructure in place and their own Chatbot AI continuing to build datasets, Emerald Financial would expect potential new partners to be application-focused.

Schapera has made mention of education in various investor presentations and Education Tech (eduTech) being one field of tech that Emerald is bullish on. This consumption of edutech has been quickened by COVID-19 where students around the world were shifted to remote learning, logging onto webcast sessions with their teachers to undertake their education. If you take it a step further, Crowd's application in sales and customer service could potentially be applied to edutech where students in remote India could potentially access an American education where the Talking Head is an average American high school teacher rather than a Hollywood celebrity.

For this to be possible however, Crowd would need to engage a suitable edutech partner that can supply critical content.

Conversational Commerce Customers

Although the beta version of this tech was only just released in November, it drew significant interest from the market which led to a \$4m capital raise which was well supported by institutional investors.

While investors were a target audience for the beta launch to highlight Crowd's capabilities and where the Company was at in terms of its tech development,



Carosa has also commented that they have had interest from potential customers of the tech that are now actively following Crowd's developments. In the same commentary, Carosa noted that the biggest customer of Crowd's tech will initially be Crowd Media themselves who will apply it towards their Crowd Direct brand partners in the same manner that have applied Emma to MD Complete.

It is not yet clear exactly how Crowd is intending to distribute the tech once they commercialise it but it will likely be a combination of Crowd Direct generated sales and Software-as-a-Service licensing to those that wish to manage the application themselves.

Crowd Direct - Consumer Goods and Services

With Crowd now having proven their ability to market consumer brands to European millennials at a time when online shopping has seen unprecedented sales, there will be more brands seeking distribution to Europe which Crowd can offer. Not all brands however will appeal to Crowd and vice-versa given Crowd's strict selection criteria. This is drawn upon by Schapera's experience at BECCA Cosmetics, indicating the strategy would not be a major influx but rather a gradual build up.

The bigger opportunity lies in the services space where Crowd has already commenced the process of securing relevant licenses to market fintech and insuretech products. These fintech service partnerships are a stated goal for Crowd in 2021, so based on the delivery of their 2020 goals, it's not a matter of when they will be announced but rather who they will be announced with.

Given Carosa's position as an industry leader in the cryptocurrency space, there will always be an expectation that Crowd will announce some involvement in the space at some point.

When considering Crowd's core market is European millennials and their expertise is in eCommerce, other likely fintech partnerships may include core services used by millennials such as digital banking, microlending, BNPL or digital payments. These services would also provide clear pathways towards application of Conversational Commerce where a Talking Head could promote apps, encourage account opening and offer customer support.

The beta version

If we compare Emma to the vision that has been communicated by Senior Management, the beta version of Conversational Commerce is probably only about 30% of the way to the goal line which is why we would expect to see further developments over the next 12 months.

Lewis Hamilton is a name that has been mentioned on multiple occasions by Crowd's Management so over the coming year, we would expect Crowd to release a version of their Talking Head that replicates a well known celebrity so that the market can see the visual capabilities. This tech is already used in the 'deepfake' space where Crowd is actively working on an authenticity measure that can distinguish between a celebrity-approved representation of themselves versus an unauthorised version created out of ill-intent. If Crowd has progressed to this stage, we suspect they have more impressive visualisations than Emma.



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|-----------------------------|--|
| Speculative Buy* | Greater than +30% |
| Buy | Greater than +10% |
| Hold | Greater than 0% |
| Sell | Less than -10% |

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