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Key Highlights

- \$2.8m financial turnaround delivered in FY20 to be underlying EBITDA positive;
- Business transformation to re-position as an artificial intelligence (AI) company;
- Growth by partnership with establishment of the AI Alliance with leading AI players around the world;
- Talking Head Platform on track for commercialisation in 2022;
- Consistent development updates delivered to the market;
- Crowd's ownership of the Q&A platform to form the 'engine' that will power the Talking Head platform;
- Start-up profile but with \$12+ million revenue being generated by Crowd's existing technology;
- Pivoting from B2C model to B2B with commencement of first SaaS licensing deal in April 2021;
- Conversational commerce market in the US is estimated to reach USD \$130 billion by 2025;
- Net tangible asset backing for each Crowd share has improved by a factor of 11.75x from 0.08 cents to 0.94 cents per share;
- High takeover target possibility with voice-to-audio capabilities non-existent in the current market that has huge valuations on text-only AI.

Emerald Financial maintains its 'Speculative Buy' rating on Crowd Media despite the decline in share price which is not reflective of the substantially healthier balance sheet held by the Company. While strengthening their financial position by extinguishing legacy debt, Crowd has downsized its operations for its major project - the Talking Head Platform - to be driven by development teams of its investee partners.

The \$2.8m turnaround in their FY20 results for Crowd Media to become underlying EBITDA positive cannot be ignored, while the Company generates circa \$12m in annual revenue to sustain cashflow for its artificial intelligence. Between the cash flow and \$4.2m cash at bank, Crowd Media has more than 2 years of headroom to fund operations, enough to see it beyond 2022 which is their target for the commercialisation of their hugely disrupting AI platform.

Outlook:

Date:

SPECULATIVE BUY

15 July 2021

Price (15 July):

\$0.022

Ticker:

ASX: CM8

52-Week range:

\$0.020-\$0.100

Market cap (AUD):

\$13.64m

Shares on issue

620m

	FY20	FY19	FY18
Revenue (\$m)	16.48	23.92	38.56
EBITDA (\$m)	-1.19	-5.58	-23.17



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Key to the value proposition presented by Crowd Media is the timing of their Talking Head platform which is deep in development at a time when Silicon Valley is paying more attention to conversational commerce. This has resulted in an increase in successful funding rounds for similar companies at the start-up phase, highlighted by the market opportunities being explored by others.

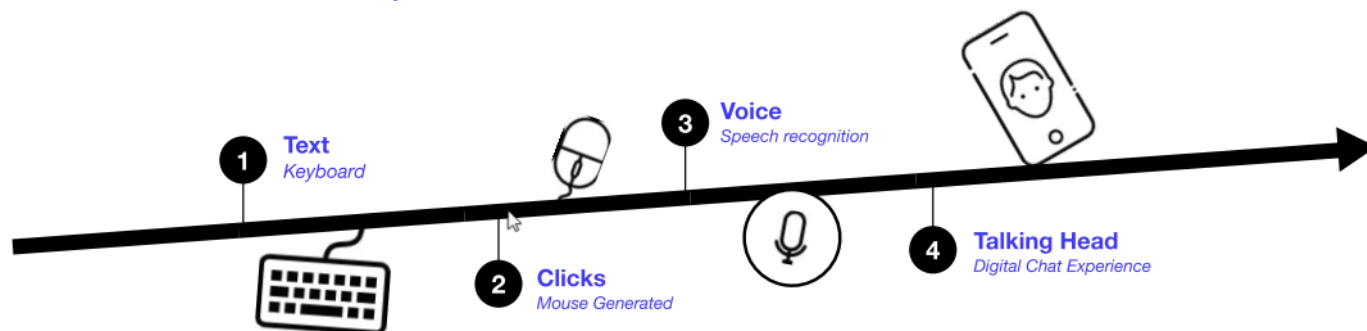
According to research prepared by Boston Consulting Group, the conversational commerce market in the United States is valued at USD \$35 billion but has the potential to reach \$130 billion by 2025 through adequate investment. The majority of this market however, is pursuing text-only applications, which is where Crowd's audio-visual application increases its disruptive potential. For this reason, Emerald Financial rates Crowd as having a higher probability of being viewed as a takeover target as the influencer marketing industry undergoes a tectonic shift.

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.

Having been at the forefront of influencer marketing over the past decade, Crowd Media management identified a shift in eCommerce back in 2018 when influencer marketing was rising to the point where it became the dominant form of online marketing. Through their extensive network of influencers, this meant influencers were being inundated by followers and did not have the time or resources to respond to them all.

Evolution of the online customer experience: What's next?



Adapting to the changing landscape, Crowd Media underwent a strategic transformation to capitalise on their existing technology, a Q&A algorithm that had answered more than 180 million user submitted questions. This existing technology attracted a major investment from a European consortium led by Steven Schapera.

Steven Schapera is best known as the co-founder of cosmetics brand BECCA which he exited in 2016 via sale to Estee Lauder for \$300m. Core to the investment was the potential of the Q&A technology which Schapera identified as his best chance to save millions of dollars in R&D to build himself. Specifically, Schapera identified an opportunity to expand text-only chat bots into fully immersive conversations, disrupting a global industry.

Revenue continues to be generated from Crowd Media's Q&A technology while a strong cash balance has Crowd well-positioned to reach the end of 2022 - their stated goal for the commercialisation of their Talking Head platform.

The Talking Head Platform - Acceleration via Partnership

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.

So far, 2021 has seen the most progress with this platform where Crowd has formed an 'AI Alliance' with some of the world's top companies in the artificial intelligence and synthetic media sector. This approach follows a strategic approach that Schapera has



employed with great success over the years where the partnership approach saves Crowd millions of dollars in R&D. Rather than develop tech to enhance their own, the partnership approach ensures the Talking Head platform has access to mission critical AI that can accelerate its development.

In lieu of the expense that would have been incurred developing the tech themselves, the trade-off for Crowd is that they are funding the R&D for their Investee Partners, of which Crowd also holds equity shares in. This provides the Investee Partners with a stake in the Talking Head Platform which enables all partners to accelerate towards commercialisation significantly faster by collaborating together on the project.

The AI Alliance is comprised of:

Crowd Media

Crowd Media owns the engine that will power the Talking Head platform with their data bank of questions and answers the primary source of content. This content is primarily text-based but is undergoing text-to-voice engineering which will enable it to be plugged into the Talking Head platform, functioning as the brain behind conversations.

VFR Holdings

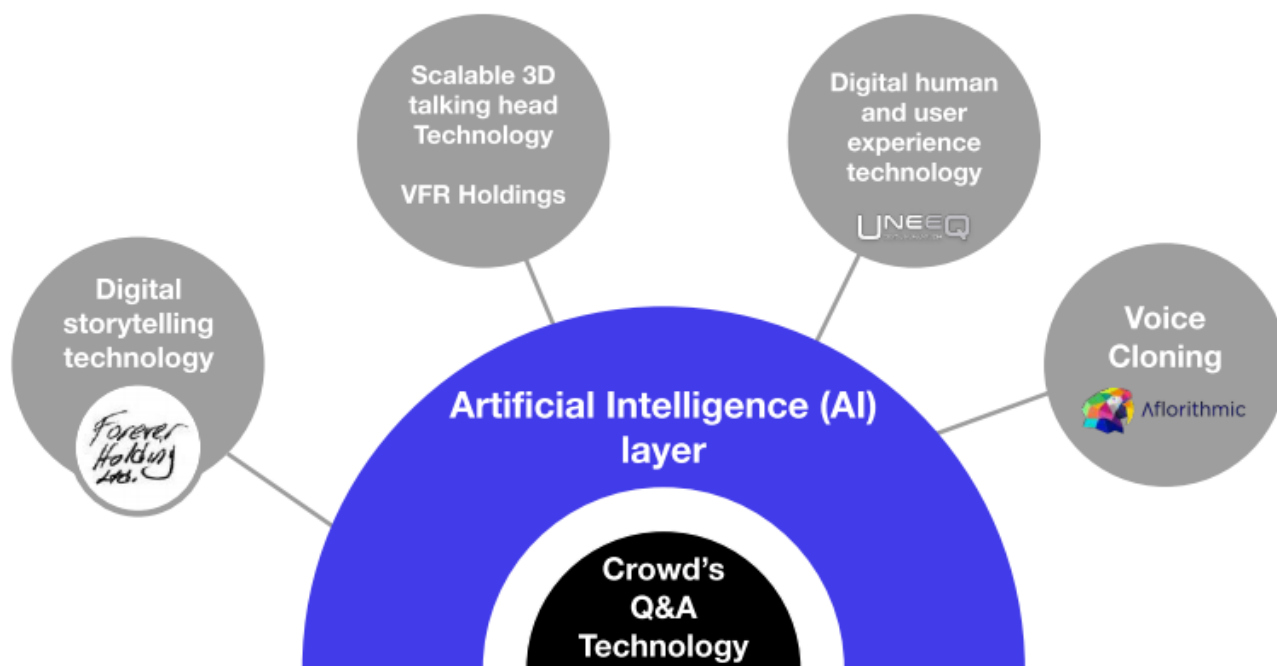
VFR Holdings created one of the world's first digital influencers - Zoe Dvir. The Company has been driving the visual elements behind the Talking Head platform with 3D imaging and visual rendering to create a scalable platform that can roll out avatars at a fraction of the speed and cost of current standards. This is particularly important for markets where there are distinct consumer preferences and will enable avatars to be rolled out in a timely manner, improving speed-to-market.

Uneeq

Uneeq specialise in the creation of digital humans and their commercial applications in sales, consultation, marketing and human interactions. At present, this is some of the most advanced tech in the industry but their conversational ability is hugely restricted to that of text-only chatbots. In November 2020, Crowd Media and Uneeq signed a 3-year binding Heads of Agreement.

Aflorithmic Labs

Aflorithmic specialises in synthetic audio and are responsible for voice cloning of the avatars on the Talking Head platform to sound like their doppelgangers. This best-in-class audio technology is being used to complete text-to-voice engineering of



Crowd's 180 million user-submitted questions. Once that engineering is complete, Aflorithmic will be able to clone the content to be voiced like a human in the world once they have recorded the tones and inflections of that person. Crowd Media owns a 10% equity stake in Aflorithmic Labs also.

Forever Holdings

Forever Holdings is a voice-and-visual interactive company whose tech has been commercialised for education purposes where students can choose from a list of questions and have them answered by projected holograms. Forever were also the first company to license Crowd's Q&A technology for their own use under a SaaS licencing deal for other applications which include In The Room with Nile Rodgers. Crowd Media owns a 8% equity stake in Forever Holdings.

Applying Conversational Commerce to solve Real World Problems

Conversational Commerce is a concept identified by Crowd when they began noticing changes in their performance metrics drawn upon from their network of more than 10,000 social influencers. As more followers flocked to influencers and celebrities with direct access on social platforms, the influencers did not have time to engage with all their fans directly.

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? Could it appear authentically with visuals, and have it all driven by AI to enable hundreds of conversations to take place to respond to all of those fans?

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 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, users can ask questions which Crowd's AI-driven tech can respond to in real-time, and provide text-based answers without human involvement.

Given their background in direct marketing, the commercial application of the Talking Head platform has long been its application in **sales** and **customer engagement**. The use case example often referred to by Crowd management is if an F1 fan could have a Facetime-like call with Lewis Hamilton. While discussing his thoughts on a Grand Prix where AI would respond as if Hamilton were responding directly. After a 90 second chat, the Hamilton avatar could then offer the fan a signed t-shirt from the event by swiping up and entering their payment and shipping details. Once entered, backend logistics would process the payment and dispatch the t-shirt all without Hamilton having to do anything other than sign 50 t-shirts.

After sales and direct marketing, **education** has been touted as the next most likely commercial opportunity for the Talking Head platform. This would involve AI being deployed to give students a platform to enhance their education experience. Especially at a time when students have become adept at remote learning during the pandemic and smart devices continue to be adopted by children at younger ages.

The key to applying Crowd's AI to education will



be developing it as a product that can save time for teachers whilst being scalable. With Crowd's Q&A platform having already answered more than 180 million user-submitted questions, developing it for educational purposes should be reasonably straightforward given the majority of student interaction is Q&A based. From this perspective, education content creators would shape as a potential market for Crowd's Talking Head platform. In this instance, it would look similar to the tech showcased by Forever Holdings at a Holocaust Museum in Germany where students can ask questions to historical figures and receive in-depth answers with corresponding visual holograms.

In June 2021, Crowd entered a Heads of Agreement with medtech company PangeaMed to integrate their Q&A platform with PangeaMed in Africa. This signaled Crowd's first intent to apply its Q&A technology to the **healthcare** sector where the ability to scale its application solves one of the biggest problems in Africa - there are not enough medical professionals to treat the populous continent.

Although the HOA is still in its early stages, its use case is a hugely attractive one for both Crowd and the African market in general where mass population density is one of the biggest hurdles to development, both humanitarian and infrastructure. Should telehealth be combined with artificial intelligence to offer basic healthcare services, the opportunity to free up medical professionals would be transformational. This is being explored by other ASX-listed medtech companies including Heramed (ASX: HMD), ResApp (ASX: RAP), Volpara (ASX: VHT) and Medibio (ASX: MEB) but all have very specialised telehealth services. With Crowd's Q&A AI, its application has a broader scope that could be applied to general healthcare by answering basic medical questions with the responses a doctor would offer.

In following the wider telehealth and medtech industry where specialist companies are employing AI to diagnose specific diseases, it could create opportunities for them to partner with Crowd for more generalised AI-driven conversations.

Additionally, the key to Crowd's AI will be its interface where it is expected to primarily operate on smartphones with minimal bandwidth requirements. Around the world, there are already medtech devices which can be attached to smartphones to record vital health data including temperature and heart rate, or record vital information such as coughs. It is therefore conceivable that telehealth could be integrated with these medical devices to enhance telehealth patient care by offering accessibility to remote locations with referral services to GPs if required.

Funded to Reach Horizon 3 - Commercialisation

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 Talking Head platform as part of their 3 Horizon growth strategy.

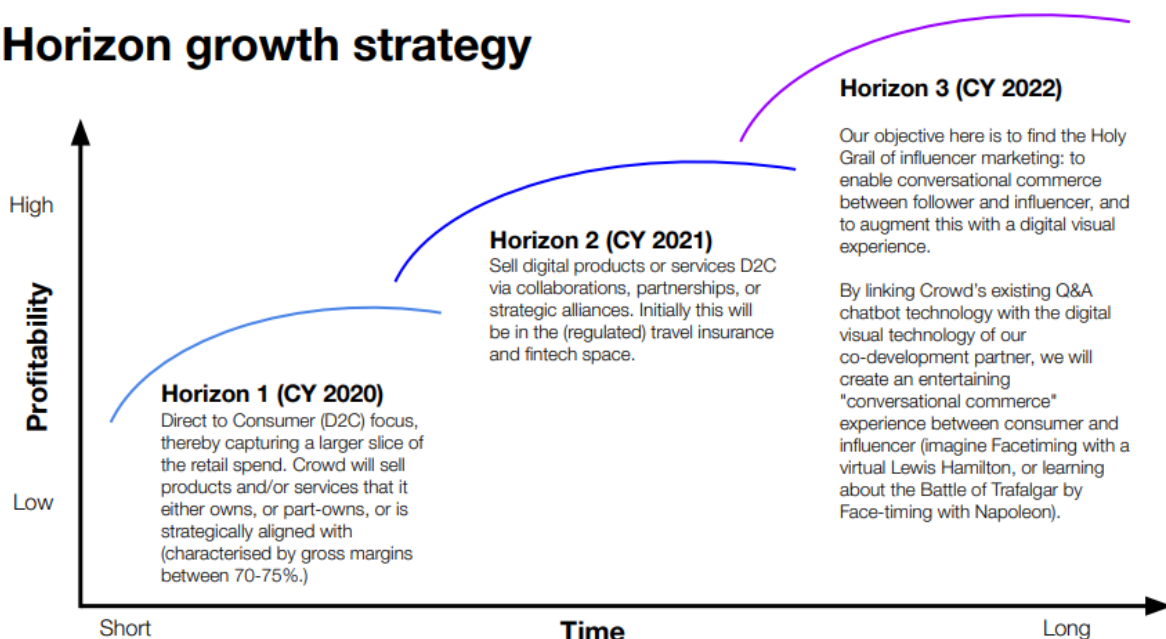
It must be noted however, that the strategy was introduced prior to the onset of COVID-19 where the global pandemic severely altered Crowd's plans for Horizon 1 and Horizon 2.

Horizon 1 commenced through a range of retail partnerships where Crowd managed direct-to-consumer sales of beauty and home products. This was gathering strong momentum with Crowd signing new brand partnerships every 4-6 weeks. Direct sales were then pushed through newly created websites, Crowd's social influencer network and the Amazon Europe marketplace with Crowd taking a clip on sales in line with industry standard.

These products formed the product suite that could be marketed using Crowd's AI. However, the pandemic altered the entire retail landscape where traditional retailers re-deployed advertising spend towards online channels. This dramatically increased Crowd's cost-per-lead metrics which resulted in the termination of unprofitable partnerships. Profitable deals with KINN Living and I Am Kamu however remain in place and enable Crowd to monitor ongoing marketing expenses in the event of the advertising landscape reverting back to pre-COVID levels.



3 Horizon growth strategy



Horizon 2 was knocked on its head very quickly when the pandemic hit, given the service Crowd had been marketing at the time was travel insurance.

Fortunately for Crowd, Horizon 3 was the only one not impacted by the pandemic with all development work having been performed behind closed doors. Restrictions on international travel have limited their teams across the UK, Spain, the United States, Israel, New Zealand and Australia from working most effectively, but progress has still been made via remote working.

With the partnerships in place, the key to Crowd's success now lies in their resources and whether they can continue to fund their operations into 2022 and beyond if there are delays.

As of March 2021, the Company reported \$4.2 million cash at bank which Management forecasts to be a 2-year runway based on internal expense forecasts over that period, by which point the Talking Head platform is expected to have reached commercialisation.

Financial Performance and Transformational 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. In short, these changes altered Crowd's revenue model which resulted in a \$4.7m net loss incurred for FY19.

Addressing this, Schapera immediately restructured the business that resulted in a significant headcount reduction, only retaining staff that would contribute to their 3 Horizons strategy. Since then, staff employed for Horizons 1 and 2 have also been let go which has enabled Crowd to rent out the majority of their Amsterdam head office as part of their commitment to reducing expenses and draw out their development runway for Horizon 3.

While decommissioning their non-profitable divisions, Crowd has had a reduction in revenue, but is still generating enough cash flow to slow down their cash burn rate.

The \$2.2m net loss for the Half-Year was the main point of concern however the Company has since further reduced their marketing expenditure.



Additionally, capital raises over the past 12 months of \$4m in November 2020 and \$1.6m in January 2021 have been used to pay down legacy debt which saves the Company \$200k in annual interest and admin expenses.

Despite that net loss for the Half Year which is expected to be significantly reduced going forward, Crowd is in a significantly healthier position than it was two years ago by extinguishing those debt facilities.

It is also worth noting that the \$2.2m net loss included non-cash items: a \$240k income tax adjustment, \$266k share based payment, \$165k of impairments and \$95k of depreciation.

When discounted, it makes the NPAT figure notably more palatable for a Company with \$4.2m cash on hand and no debt.

Since the start of CY20, net tangible asset backing for each Crowd share was 0.08 cents but by the end of the year this had improved by a factor of 11.75x to 0.94 cents, meaning the balance sheet is markedly stronger.

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.

Expenses are expected to further decrease from July 2021 onwards after 545 Convertible Notes (\$1,000 face value each) were converted into CM8 stock at a conversion price of \$0.018 per new share. CM8 shares had been trading at \$0.025 at the time so note holders would have been entitled to convert the additional 1,165 that had been held and sold on market at a profit, but elected not to.

The conversion and lapsing of these Convertible Notes alleviate Crowd of 10% annual interest while also increasing the holding of CM8 shares held by major shareholders, including Schapera. Further savings are expected to be realised with a number of changes at the Board level with former CEO Domenic Carosa transitioning into a Non-Executive role (while

Comparison of years ended 30 June 2020 to 30 June 2019

	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	(984,355)	(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%)



still maintaining a major shareholding), bringing the Secretary role in-house where it was previously outsourced, and Robert Quandt standing down from the Board.

Takeover Target - Higher

Given that Crowd Media has not disclosed its plans beyond 2022, consideration must be given to them as a takeover target based on the disruptive nature of their artificial intelligence.

Text-only chatbots have long been the most advanced medium of conversational commerce which has propelled LivePerson (NASDAQ: LPSN) to a market cap of more than USD \$4 billion.

The wider conversational commerce market is picking up around the world too, albeit giving companies like Crowd and their AI partners a sizable head start. According to research prepared by Boston Consulting Group, the conversational commerce market in the United States is valued at USD \$35 billion but has the potential to reach \$130 billion by 2025 through adequate investment.

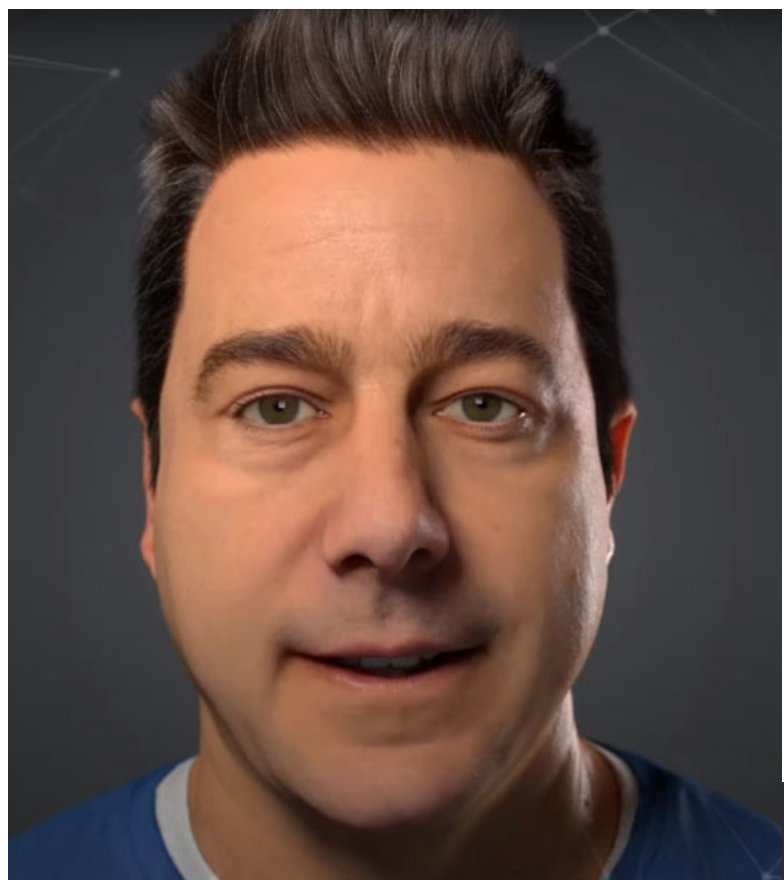
While a multinational like LivePerson shapes as a possible buyer for Crowd's AI, they will likely want to see the Talking Head platform more developed before initiating discussions.

This could potentially open the door for one of Crowd's partners to consider a bid considering several are significantly stronger capitalised than Crowd and have inside running on the technology being developed for the Talking Head platform, of which Crowd owns 85% under a joint venture model. In such a scenario, Uneeq would present as the partner that could benefit the most from ownership of Crowd's AI and data bank.

Risk Factors

Technology risk and funding risk are the risk concerns for Crowd Media which could affect them from achieving their goals but no more than any other artificial intelligence company of their size. savings are expected to be realised with a number of changes at the Board level with former CEO Domenic

Carosa transitioning into a Non-Executive role (while still maintaining a major shareholding), bringing the Secretary role in-house where it was previously outsourced, and Robert Quandt standing down from the Board.



Crowd's Domenic Carosa as the Talking Head beta 'Digital Dom'



Crowd Media - Statement of profit or loss

For the half year ended 31 Dec 2020

	Consolidated	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Revenue		
Revenue from continuing operations	6,972,669	8,542,586
Cost of sales	(2,082,930)	(2,457,352)
Gross Profit	4,889,739	6,085,234
Other income	113,506	-
Interest revenue calculated using the effective interest method	2,230	129
Expenses		
Marketing	(2,153,449)	(2,360,621)
Administration and other expenses	(577,879)	(767,758)
Consultants	(428,688)	(744,251)
Depreciation and amortisation expense	(321,727)	(291,028)
Employee benefits expense	(2,859,111)	(2,619,382)
Impairment of assets	(165,000)	-
Travel and accomodation	(12,943)	(62,630)
Product development	(8,386)	(6,298)
Share-based payment	(266,138)	(189,367)
Allowance of expected credit losses	-	3,145
Net fair value loss on financial liabilities	-	(303,902)
Finance costs	(269,233)	(438,504)
Loss before income tax (expense)/benefit	(2,297,252)	(1,246,578)
Income tax (expense)/benefit	(240,173)	448,655
Loss after income tax (expense)/benefit for the half-year attributable to the owners of Crowd Media Holdings Ltd	(2,297,252)	(1,246,578)
Other comprehensive income		
Foreign currency translation	28,085	(45,667)
Other comprehensive income for the half year, net of tax	28,085	(45,667)
Total comprehensive income for the half-year attributable to the owners of Crowd Media Holdings Ltd	(2,269,167)	(1,292,245)
	Cents	Cents
Basic earnings per share	(0.55)	(0.48)
Diluted earnings per share	(0.55)	(0.48)



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All Figures in this report were correct as of 15th July 2021.

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Recommendation Rating Guide	Total Return Expectations on a 12-mth view
Speculative Buy	Greater than +30%
Buy	Greater than +10%
Hold	Greater than 0%
Sell	Less than -10%

*A Speculative Buy is speculative in nature for companies that do not have significant historical data



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