

CROWD MEDIA (ASX: CM8)

TECHNOLOGY & ECOMMERCE



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Outlook - Speculative BUY

Despite the economic uncertainty driven by COVID-19, one sector which has thrived since the pandemic started is online retail. Coincidentally, the pandemic has fallen in line with a transformative business restructure at Crowd Media (ASX: CM8) which commenced in September 2019 and a \$2.7m investment from the European Consortium. The investment led to appointments of Steven Schapera and Robert Quandt to the Crowd Media Board and a '3 Horizon' plan to merge Schapera's expertise in product sourcing with Crowd's extensive social commerce network and technology.

Key Highlights

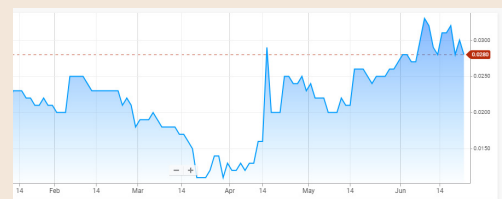
- Key personnel appointments with extensive commercial success with influencer marketing, inc Steven Schapera, Founder of BECCA Cosmetics;
- Downsize of loss-incurring business divisions;
- Core focus on direct-to-consumer social commerce sales;
- Extensive network of 10,000+ social influencers & localised millennial knowledge of individual operating markets;
- Four high-margin brand partnerships secured in first 9 months of business transformation;
- Financial turnaround from \$4.7m loss to positive underlying EBITDA for H2FY20;
- Goal-oriented 3-year plan to capitalise Management's unique skill sets;
- AI chatbot development to potentially revolutionise global influencer industry;
- Takeover Target: Low to Medium

Emerald Financial maintains a 'Speculative Buy' rating on CM8 on grounds that the business transformation is actively succeeding at present with a financial turnaround that brings historical debt to manageable levels. Crowd Media is delivering on goals set for 2020 which has been a year primarily focused on implementing a viable business model which has led to Crowd Media's expected underlying EBITDA to be positive for H2 20. This has been validated by active corporate activity to secure four brand partners which will engage Crowd's extensive influencer marketing and social commerce networks with minimal risk to Crowd.

Date 29 June 2020

Price (29 Jun): \$0.024
Ticker: ASX: CM8

52-Week range: \$0.032-\$0.011
Market cap (AUD): \$9.2m
Shares on issue 384m



CM8 share price since Jan 2020

	FY19	FY18	FY17
Revenue (\$m)	23.92	38.56	43.92
EBITDA (\$m)	2.75	10.46	7.42



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Considering the viral nature of influencer marketing which has become a \$6.5 billion industry, social media campaigns have the potential to deliver rapid revenue growth where Crowd's business transformation has adopted strict criteria to identify exemplary products with the potential to go viral through Crowd's extensive network of more than 10,000 influencers.

Company Summary

Crowd Media (ASX: CM8 | FWB: CM3) is a social commerce company that intersects the two growth areas of influencer marketing and eCommerce. With offices in Australia and Amsterdam, 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.

Crowd Media's business model centres around sourcing consumer products from reputable manufacturers and then using their expertise to market the goods to new geographies where Crowd Media take a percentage of goods sold. It also makes Crowd the only social commerce company listed on the ASX offering this highly unique form of marketing.

Crowd Media underwent a significant business restructure in 2019 where the Company downsized itself from various loss-incurring legacy businesses to focus on its strongest growth business - social commerce marketing of consumer goods for European millennials. As part of the restructure, Crowd Media appointed respected industry leaders Steven Schapera as Chairman and Robert Quandt as a Non-Executive Director.

Schepara is best known as the Founder of cosmetics brand BECCA which he exited in 2016 via sale to Estee Lauder for \$300m. Quandt previously held COO/CFO positions at Invincible Brands, a Berlin-based digital marketing agency, and advised Linde AG on their €6bn Americas business.

Taking this Board level experience and CEO Domenic Carosa's 25+ years in the technology sector, Crowd Media commenced a 3-year strategy in November 2019 which included a core focus on exemplary products for European millennials, a low risk but proven business model executed by The Company's business leaders in the past.

Booming Retail Market Through COVID-19

The coronavirus pandemic has triggered a negative impact on most global economies however the two ASX sector indexes which have thrived so far have been Technology and Informational Technology.

With populations in mass lockdown for Government-directed biosecurity measures to prevent the spread of COVID-19, technology has played a fundamental role in businesses being able to operate in the digital space. Consequently, the pandemic has seen a major rise in online retail sales where consumers have not been able to physically visit their local brick-and-mortar stores. This trend brought all demographics in line with Crowd Media's millennial market as tech-based consumers

Around the world, spending data through COVID-19 has been significant with the United States seeing a 17.7% increase in spending through May 2020 whilst Australia followed suit with 16.3%.

Although we have seen some retail outlets reopening in major commercial districts, the pandemic has highlighted



to many businesses the opportunities available to them by realigning their retail models with a focus towards online sales.

The biggest ASX riser through COVID-19 was online retailer Kogan.com (ASX: KGN) whose share price rose more than 219% from the start of March to June 19. A similar trend was seen across the Australian retail sector which prompted large retailers to commit to growing their online presence even after the pandemic subsidies.

In Europe, this is already the case, with a clear preference amongst millennials to purchase their goods and services online where 96% own a smartphone. Further within the demographic, 57% do not have children which indicates significant spending in other key metrics. For example, 75% have travelled in the past year, and more than 280 million millennials use the internet daily.

The clear penchant for spending is highlighted by the liberal nature of European millennials who are experience-focused and largely adverse to cost when compared to other international consumer markets. This is why Crowd Media has a strong focus on the demographic when selecting consumer goods to engage with using their strict selection criteria.

2020 Business Transformation - Proven Leadership and Success

Crowd listed on the ASX in 2015 under the name Crowd Mobile, but it is crucial to note that the business has undergone significant changes since September 2019 following poor financial performance which resulted in a net loss of \$4.7m for FY19.

One of the major contributors to the loss was business division Crowd Mobile which was negatively impacted by regulatory changes that specifically impeded their mobile service. This resulted in the Crowd Mobile business reporting a 41% decline in revenues and prompted the strategic review which saw the business unit downsized. This provided Crowd with annualised reduction in operating expenses of \$3.5m and enabled total focus on its Crowd Media social commerce division, the core business in operation today.

As part of Crowd Media's restructure, the Company welcomed a significant \$2.7m investment from the European Consortium which was led by industry leader Steven Schapera who was subsequently appointed as Chairman of Crowd Media.

Schapera is best known as the founder of cosmetics brand BECCA before selling the company to Estee Lauder for \$300m in 2016. Since exiting that business, Schapera identified an opportunity to use Crowd's existing social media and social commerce networks to market consumer brands to the European market in a similar way that

SCORE OUT OF 100	
Dividend Score	0
Quality	43.4
Price Momentum	88.7
Maturity Score	63.8
All Weather Score	62.8
Credit Score	66.2
Earning Score	37
Growth	90.6
Emerald Stock Score	88.2

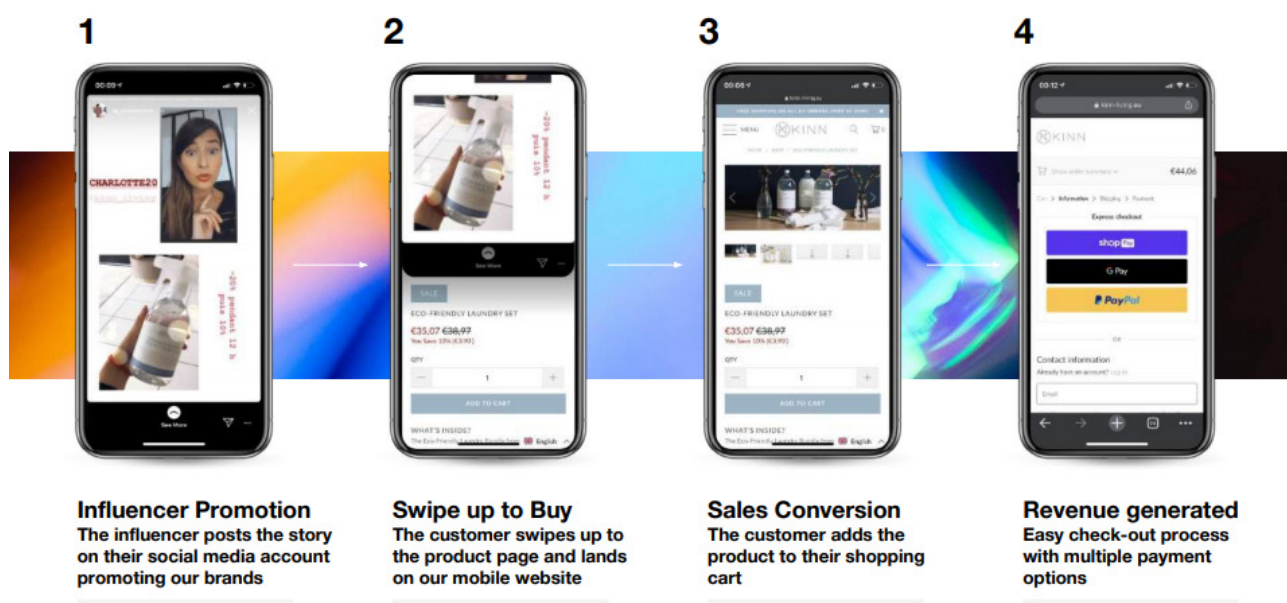


BECCA became one of the world's most recognisable cosmetics brands. Unlike the marketing network Schapera had previously built, the social networking infrastructure that forms the core of the network had already been established on a global scale from the downsized Crowd division.

As an investor in the health, beauty wellness and tech spaces, Schepara is still highly active in the consumer brands sector. Since joining Crowd Media as Chairman, Schepara has been active in networking and identifying brands that will resonate with European millennials, but has been confined due to limited marketing resources. This has led to significant marketing service contracts for I Am Kamu, London Labs, KINN Living and VITAL Innovations within Schapera's first 9 months in the role. The marketing service contracts further validated Schapera's November 2019 AGM address in which he outlined a strategic 3-year plan to directly sell exemplary products integral to the lives of European-based millennials.

The European Consortium of investors engaged by Schapera include other industry leaders that have extensive experience in the consumer brands market which include Robert Quandt who has also joined Schapera on the Board at Crowd Media. Quandt was instrumental in the rise of Invincible Brands which has established itself as a powerhouse in European influencer marketing.

How does influencer marketing work



Having founded Crowd Mobile in 2009, CEO Domenic Carosa has extensive experience in tech business transformation. This included developing Destra, a web hosting 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 investing into Crypto Payments company Banxa.com in 2014 - a time when Bitcoin (BTC) was trading at less than USD \$500 (trading above USD \$9,000 at the time of this report). With Banxa.com being an internationally compliant fiat-to-crypto gateway solution for exchanges, wallets and other cryptocurrency businesses, Carosa has remained at the forefront of digital payment trends where he remains on the Banxa.com Board as Non-Executive Chairman.



Operational and Financial Performance

Operating segment information				
Consolidated - 2019	Q & A \$	Subscription \$	Crowd Media \$	Total \$
Total Revenue	15,925,277	6,361,291	1,634,199	23,920,767
EBITDA	(3,299,165)	427,500	(1,664,132)	(4,535,797)
Depreciation and amortisation	(71,176)	(129,612)	(8,340)	(209,128)
Allowance for expected credit losses	(978,258)	(147,338)	(32,889)	(1,158,485)
Interest income	1,991	-	-	1,991
Finance costs	1,799,374	(2,376,698)	(5,570)	(582,894)
Other non-cash expenses	106,903	-	-	106,903
Loss before income tax benefit	(2,440,331)	(2,226,148)	(1,710,931)	(6,377,410)
Income tax benefit				1,581,426
Loss after income tax benefit				(4,765,984)

Crowd Media does not hide from the fact the Company operated at a \$4.7m net loss for FY19 and \$26m loss for FY18. The financial performance however did catalyse a series of events which has led to the current business transformation.

As part of the restructure, Crowd Media has significantly downsized its Q&A and Subscription businesses which contributed losses of \$2.4m and \$2.2m respectively through FY19. This downsizing was partially captured in Crowd's H120 report where the divisions combined for \$1.6m in asset impairments but enabled Crowd to focus its operations towards its media division. Within the new Crowd Media business model, there have been significant changes to this model which has led to the Company reporting expectations of underlying EBITDA for H2 to be positive. Although the overall FY20 will still be an operating loss due to the \$1.7m loss incurred for H1, the H2 EBITDA expectations represents an inflection point which coincides with the first complete half-year under the current Board.

The core fundamental which has improved Crowd's business is its shift in product selection strategy to best utilise its extensive social media network of influencers. In an interview with 180 Markets in June 2020, Schapera

Operating Cash Flow - H1 FY20			
	31 Dec 2019 \$	31 Dec \$	Percentage Change
Revenue	8,542,586	14,009,516	(39%)
Cost of sales	(2,457,352)	(4,126,833)	(40%)
Selling, general and administration expenses	(6,750,307)	(11,433,429)	(41%)
Allowance for expected credit losses	3,145	(1,721,042)	(100%)
Net fair value loss on derivative financial liabilities	(303,902)	-	- %
EBITDA Profit/ (Loss)	(965,830)	(3,271,788)	(70%)
Interest income	129	1,731	(93%)
Depreciation and amortisation	(291,028)	(99,208)	193%
Finance costs	(438,504)	(491,460)	(11%)
Income tax (expense) / benefit	448,655	1,049,002	(57%)
Net Profit / (Loss) After Tax	(1,246,578)	(2,811,723)	56%



illustrated this with an example from his cosmetics background where the focus had always been on margin, where anything less than 75% would not be worth the time and effort. This was reflective in Crowd's previous agency model where it logged \$1.6m revenues for FY19, but were held back by weak margins, resulting in the \$1.7m loss for the division.

Under the new model, revenues may appear subdued but the margin on sales is significantly higher for products sourced, aggregated upwards of 20%. This forms the new mantra of Crowd's product selection where Management is actively seeking consumer brands it can secure for marketing to European millennials without carrying manufacturing or warehousing risks.

Balance Sheet - H1 FY 2020		
	31 Dec 2019	30 Jun 2019
	\$	\$
Total current assets	6,037,733	6,412,388
Total non-current assets	5,113,108	2,546,805
Total assets	11,150,841	8,959,193
Liabilities		
Current liabilities		
Trade and other payables	2,994,203	4,093,412
Deferred revenue	110,109	176,345
Borrowings	418,397	-
Lease liabilities	374,303	-
Employee benefits	121,102	46,098
Provisions	-	550,909
Total current liabilities	4,018,114	4,866,764
Non-current liabilities		
Borrowings	4,433,660	2,991,849
Lease liabilities	1,768,800	-
Derivative financial instruments	-	152,467
Total non-current liabilities	6,202,460	3,144,316
Total liabilities	10,220,574	8,011,080
Net assets	930,267	948,113
Equity		
Issued capital	29,413,559	28,720,072
Reserves	5,597,918	5,062,673
Accumulated losses	(34,081,210)	(32,834,632)
Total equity	930,267	948,113



Following the substantial losses incurred through FY18 and FY19, debt is a potential risk. However the company has been actively reducing debt levels to \$10.2m in liabilities, of which \$4m is current. This was reduced with partial funding from the \$2.7m investment from the European Consortium and then further reduced in June 2020 with \$500k from a \$1.5m Placement assigned to debt repayments. Of the \$4.4m in borrowings, only \$2.1m consists of loans payable with the remainder attributable the European Consortium convertible notes.

With its operational activities, Crowd Media's current business case is not dissimilar to the refinement stage of a start-up. However, with its balance sheet, there are potential takeover target prospects for Crowd in Europe's rapidly evolving influencer marketing marketplace where it would otherwise take years for larger agencies to build the influencer network that Crowd has been establishing since its inception.

Blue Sky Horizon

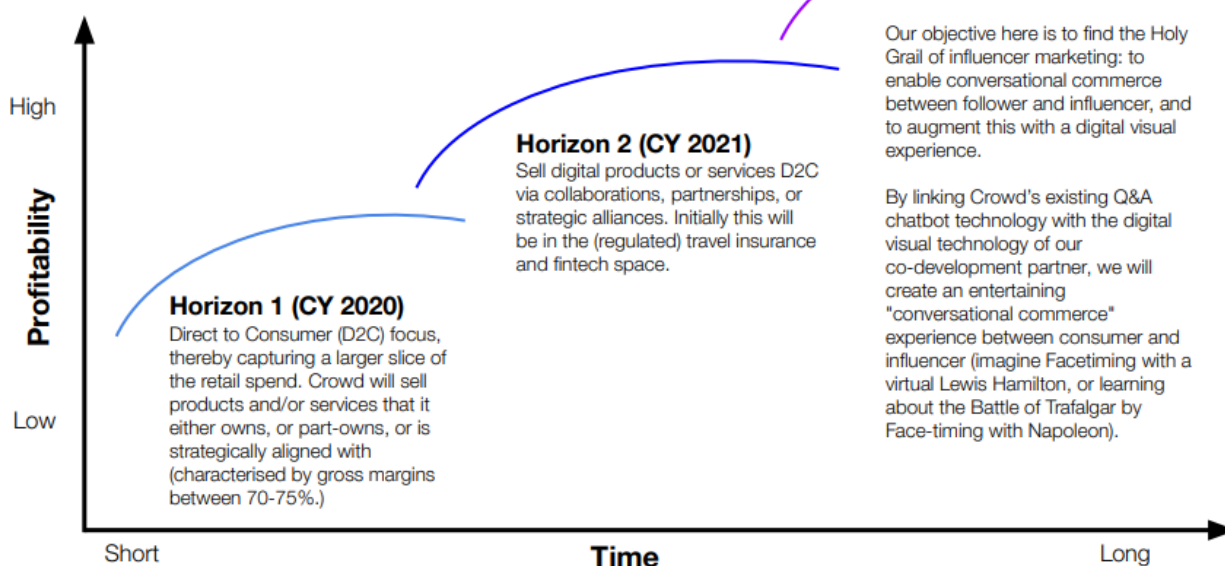
Core to the business transformation introduced in November 2019 is the Company's 3 Horizon growth strategy which directs Crowd Media on a goal-oriented path.

Although they are yet to complete the first year of Horizon 1, Crowd has largely met its goals for 2020 with the securing of four high-margin consumer brand marketing contracts and building of their Amazon eCommerce platform.

Horizon Model

McKinsey 3 horizon model

3 Horizon growth strategy



Through their custom-built Amazon sales platform, the opportunity to mix influencer marketing with channel marketing significantly increases Crowd's reach with minimal additional expenditure. It also significantly increases their engagement opportunities if consumers do not purchase from initial contact via influencer marketing, the eCommerce platform can keep the lead alive passively as an alternate checkout point.

With four brand supply partners secured since Schapera's appointment as Chairman and more expected before the end of CY 2020, Crowd's focus will soon focus on Horizon 2. It is expected that with the influencer marketing



network and eCommerce platform in place and actively operating, tangible financial performance should streamline the onboarding process of prospective partners, which still must meet Crowd's strict selection criteria.

Within Horizon 2, however, Crowd's marketing will expand to services and fintech products, a sector that CEO Domenic Carosa has achieved significant commercial success in over the past 25 years.

Initial plans are to return to the travel insurance space where Crowd Media had partnered Pluto Services to market their insurtech products to their millennial audiences that have high penchants for travel. These plans, however, were mutually put on hold due to uncertainty for the sector as a direct result of COVID-19 travel restrictions. It is planned that negotiations will resume in the future, however discussion around fintech products may be of greater interest based on their prominence through COVID-19.

Through the pandemic, fintech payment platforms have emerged as just one form of fintech to have thrived despite economic uncertainty. In particular, there is a clear correlation between popular fintech products offered by brands like AfterPay and ZipPay, and Crowd Media's target demographic for influencer marketing.

Fintech interest amongst millennials has been further heightened through the events of COVID-19 as evidenced by the sizable influx of retail investors entering the Australian share marketplace from February to April 2020, resulting in wild liquidity injections and an investigation from the Australian Securities and Investments Commission.

The findings revealed retail brokers increased from \$1.6 billion in the benchmark period to \$3.3 billion in the focus period. Furthermore, the rate of creation of new accounts was 3.4 times higher during the focus period.

Popular sentiment amongst millennials which resulted in this activity was that COVID-19 was a one-in-a-lifetime investing opportunity similar to the rebounds witnessed from the Global Financial Crisis and dot-com bubble. Subsequently, there was immediate demand for sharemarket trading accounts and investment products amongst younger investors seeking to harness their knowledge of technology into investment opportunities.

As a pioneer in the online business space and an early Bitcoin investor when BTC traded around \$500 - now trading around \$9,000, Carosa has a proven track record in identifying fintech products that will appeal to millennials. Whilst his previous successes have involved investing in these opportunities, Horizon 2 will leverage his fintech expertise and Crowd's social commerce infrastructure to collaborate in a major growth area at a unique time when there is mass interest from their target audience.

Imagine how many millennials would have bought Bitcoin at \$500 if David Beckham suggested it back in 2014...

Horizon 3 however, represents a game changer possibility for Crowd Media which will involve development of technology that has already been significantly advanced by Crowd's Q&A business. The technology dubbed 'conversational commerce' was one of the key elements that led Schapera's European Consortium to invest \$2.7m into Crowd Media with his intentions to optimise it through the addition of artificial intelligence (AI) and then integrate it into influencer social media accounts.



Some of the world's most savvy tech buffs were amazed in 2018 by technology developed by Google which use AI to create bots that can mimic human conversation. Presented to a live audience, the Google Assistant successfully booked a hair appointment and responded to questions in live time, completely unbeknown to the hair salon assistant they were talking to artificial intelligence.

This 'holy grail' of conversational commerce would be a game changer in the sense that it would enable influencers to scale their influence significantly via scalable 1 on 1 interactions with followers. Without being as advanced as Google's demonstration, influencers get hundreds of messages from followers which they do not have time to respond to. Using technology already developed by Crowd's Q&A - they can. And in the process of doing so, significantly strengthen their fan engagement levels which has major commercial domino effects through increased sales, more influencer opportunities and general popularity.

It is clear that Horizon 1 will be reached shortly. Horizon 2 is a timely opportunity to solidify sales while leveraging Crowd Management's successes in the fintech space with an engaged audience. But Horizon 3 is a game changer which can bring revolutionary technology to a huge network of influencers to automate their fan engagement using Crowd's AI.



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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 young companies that do not have significant historical data

