

Pureprofile Limited (PPL)

Initiation of coverage

May 2016

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Note: This report is based on information provided by the Issuer as at May 2016

Rating



Key Investment Information

Share Price (\$) as at 10 May 2016	0.60
Issued Capital:	
Ordinary Shares (M)	62.2
Options (M)	3.4
Performance Shares	0
Fully Diluted Shares (M)	65.6
Market Capitalisation (M)	39.4
12 month L/H (\$)	0.33 - 0.60
12 month Share Price Target (\$)	0.85

Board and Management

Andrew Edwards:	Non Executive Chairman
Paul Chan:	Managing Director & Chief Executive Officer
Geoffrey Nesbitt:	Executive Director & Chief Financial Officer
Clifford Rosenberg:	Non Executive Director

Major Shareholders

Paul Chan & Associates	10.9%
Funbox Media	9.2%
Swaab Estate	9.0%
EFM Global Growth Fund	7.5%

PROFILING FOR GROWTH

Pureprofile Limited (PPL) is a global data, insights and programmatic media company which offers a strong investment proposition. Its technology provides a relatively unique convergence of online consumer profiling with big data analytics and programmatic advertising which is crucial to the effectiveness of the online advertising industry. PPL was an early mover in online market research and more recently benefitted from a number of significant alliances, including News Ltd Australia and AA Smartfuel NZ. The alliances demonstrate PPL's ability to secure deals with major companies and augers well for future deals and licensing of its SaaS platform. PPL's acquisition of Sparc Media expanded its programmatic media offering which is now experiencing significant growth in revenue. The threat of ad blocking has not dampened the market, as growth in the programmatic market has outpaced this. PPL is expected to continue to experience solid revenue growth from programmatic, driving revenue and earnings growth. We forecast PPL to more than double revenue to \$46.3m in the 3 years to FY18 as it benefits from these growth opportunities and is guided by an experienced management team.

KEY POINTS

Strong product offering - PPL products are all well placed to benefit from strong growth. Its online market research and profiling is used by research and media agencies, many of which have been long term clients. The News Ltd alliance provides an opportunity to partner with a leading media publisher to present an innovative solution by allowing consumers to pay for content via surveys and profiling. Its SaaS platform offers additional growth opportunities while the programmatic media business provides diversification into a high growth industry.

Attractive industry growth - PPL is well placed to benefit from industry growth in consumer profiling combined with the need for big data analytics. In addition, PPL will gain from growth in the programmatic advertising industry which is expected to double by FY18.

Competitive strengths - PPL's strengths lies in being an early mover and recognised leader in the online market research space. The core online market research business is profitable with an annuity stream created through long term client retention of many recognisable brands. The proven programmatic capabilities of the business is reflected in its revenue which continues to show significant growth each period.

Positive contract momentum - The high profile alliance with News Ltd in Australia places PPL in a solid position to win additional publishing deals, while the AA Smartfuel alliance will open up additional opportunities in NZ. These alliances validate PPL's commercial opportunities and increases the company's profile with customers.

Key risks - In IIR's view, PPL's high profile alliances with News Ltd and AA Smartfuel provides a risk if the alliances do not deliver on market expectations, impacting on future growth opportunities. Key person risks exists, but this is not unusual for a company of this size. The business is impacted by overall economic conditions which directly impact the advertising industry. Risks to revenues from a highly competitive industry must also be expected as part of the PPL business, with potential volatility of revenue from the programmatic business. Whilst not currently an issue, technological change may have an impact on revenues, and the ad blocking may present both risks and opportunities in the future for PPL.

Investment view - IIR initiates coverage on PPL with a Recommended rating and a valuation of \$0.85 per share. We consider PPL as offering a solid investment case consisting of core profitability + core growth + disruptive growth. Core profitability comes from the already profitable online market research business. Core growth is expected to come from a deeper penetration of clients and further SaaS platform licensing while programmatic media provides additional disruptive growth opportunities. The risks of investing in such structural change may present volatility and investors should carefully consider their risk appetite and the potential allocation to an overall portfolio.

PROFIT & LOSS (\$M)					
Y/E June	2014A*	2015A*	2016F	2017F	2018F
Revenue					
Data & Insights	8.2	9.2	11.2	14.2	16.5
Media	9.0	12.5	18.5	24.0	29.7
Other	0.0	0.0	0.0	0.0	0.0
Total Revenue	17.2	21.7	29.7	38.2	46.3
Direct Costs	-8.1	-10.9	-13.8	-17.8	-21.7
Gross Profit	9.1	10.8	15.9	20.5	24.5
Other Expenses	-10.2	-10.2	-13.3	-15.6	-18.0
EBITDA	-1.1	0.6	2.5	4.8	6.5
Depreciation & Amortisation	-0.8	-1.1	-1.2	-1.3	-1.8
EBIT	-1.9	-0.5	1.3	3.6	4.7
Interest Expense	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	-1.9	-0.5	1.3	3.6	4.7
Tax	0.5	0.8	0.2	-1.1	-1.4
Net Profit Before Other items	-1.4	0.3	1.5	2.5	3.3
Other Items	0.0	0.0	-1.2	-0.7	0.0
Net Profit After Tax	-1.4	0.3	0.3	1.8	3.3

BALANCE SHEET (\$M)					
Y/E June	2014A	2015A	2016F	2017F	2018F
Cash & Cash Equivalents	1.0	0.7	2.0	2.9	3.5
Trade Receivables	2.2	3.3	7.4	10.6	8.5
Other	0.7	1.4	2.0	2.0	2.0
Total Current Assets	3.9	5.4	11.3	15.4	14.0
Property, Plant & Equipment	0.0	0.1	0.2	0.3	0.3
Intangibles	1.3	2.6	9.2	8.1	10.5
Other	0.7	1.3	1.1	0.1	2.5
Total Non Current Assets	2.1	4.0	10.6	8.4	13.3
Total Assets	6.0	9.4	21.9	23.8	27.3
Trade Payables	2.5	4.2	7.3	7.5	7.6
Other Current Liabilities	0.4	0.4	0.5	0.5	0.5
Provisions	2.6	2.4	0	0	0
Other	0.0	0.2	0	0	0
Total Current Liabilities	5.5	7.2	7.8	7.9	8.1
Deferred Tax	0.5	1.0	1.4	1.4	1.4
Provisions	0.0	0.0	0.1	0.1	0.1
Total Non Current Liabilities	0.5	1.0	1.5	1.5	1.5
Total Liabilities	6.1	8.3	9.3	9.5	9.6
Net Assets	-0.1	1.2	12.6	14.4	17.6
Issued Capital	4.0	7.2	18.5	18.5	18.5
Reserves	0.5	0.0	-1.2	-1.9	-1.9
Accumulated Losses	-4.6	-6.0	-4.7	-2.2	1.1
Total Equity	-0.1	1.2	12.6	14.4	17.6

CASHFLOW (\$M)					
Y/E June	2014A	2015A	2016F	2017F	2018F
Receipts from customers	9.3	9.5	22.8	32.4	41.6
Payments	-9.2	-9.3	-24.3	-30.1	-35.4
Restructuring, Acqn & IPO Costs	0.0	-1.4	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0
Other Income	0.1	0.1	0.0	0.0	0.0
Income Taxes	0.5	0.3	0.0	-1.1	-1.4
Net Cash from Operating Activities	0.8	-0.8	-1.4	1.4	4.8
Payment for the purchase of business, net of cash acq'd	0	0	-2.5	0	0
Payment for expenses relating to acquisitions	0	0	-1.4	0	0
Payments for Property, Plant & Equipment	0.0	-0.1	-0.2	-0.2	-4.2
Payments for Intangibles	-0.8	-1.9	-1.2	0.0	0.0
Proceeds from Disposal of PP&E	0.0	0.0	0.0	0.0	0.0
Net Cash from Investing Activities	-0.9	-2.0	-5.3	-0.2	-4.2
Proceeds from Issue of Shares	0.0	2.5	10.0	0.0	0.0
Share Issue Transaction Costs	0.0	-0.1	-0.9	0.0	0.0
Repayment of borrowings	0.0	0.0	-0.1	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Cash from Financing Activities	0.0	2.4	9.0	0.0	0.0
Net Cashflows	-0.1	-0.5	2.3	1.2	0.6
Cash at Beginning of Year	1.1	1.0	0.5	2.9	4.1
FX Movements	0.0	0.0	0.0	0.0	0.0
Cash at End of Year	1.0	0.5	2.9	4.1	4.7

KEY METRICS				
Y/E June	2015A	2016F	2017F	2018F
Total Revenue Growth	26.2%	36.7%	28.8%	21.0%
Return on Equity	26%	12%	17%	19%
Earnings per share (cents)	0.8	4.0	6.7	8.8
Price / Earnings Ratio			14.5	11.0
Dividends per share	0	0	0	0
Dividend Yield	0%	0%	0%	0%
Franking	0%	0%	0%	0%
Price/Book Value	29.6	2.7	2.4	1.9

*Note: Profit & Loss for 2014A and 2015A are pro forma actuals

SWOT ANALYSIS

Strengths

- ◆ PPL is a recognised early mover in the online market research industry, having launched its core offering in 2002.
- ◆ PPL enjoys strong client retention for its online market research with many recognisable brands using PPL for research and brand awareness initiatives. Many of its clients have been long term clients of PPL.
- ◆ PPL's profiling is undertaken in a consumer friendly manner. Profiles are generated on a voluntary basis which is unobtrusive in nature and allows surveys to be more palatable for a larger number of participants.
- ◆ PPL's business model allows ongoing engagement with consumers through smaller surveys and opinions, providing greater reliability of responses.
- ◆ The acquisition of Sparc Media brings an experienced programmatic media business with solid growth potential. As an early adopter of programmatic media trading, Sparc is able to significantly leverage its knowledge to capitalise on industry growth.

Weakness

- ◆ Although profitable, the Data & Insights business requires additional scale to improve its returns. This may be delivered through an aggressive sales push, a deeper penetration of clients and growth opportunities from the SaaS platform.
- ◆ PPL will need to address the US and global market for programmatic advertising in order to fully realise the growth potential from Sparc.
- ◆ As at March 2016 PPL had \$2.2m Cash at the Bank, which limits the Company to mainly organic profitable growth. Any significant acquisition opportunities will require additional capital funding.

Opportunities

- ◆ PPL is in a relatively unique position to combine both market research data from user profiles with programmatic advertising. As the online advertising market grows, this may provide additional opportunities for PPL to leverage these capabilities.
- ◆ To date, PPL has successfully built a consumer profile database with little advertising and largely through referrals. The recent alliances, and the expectation that new ones will be formed, should see a significant increase in the number of consumer profiles without comprising the informational quality / depth that PPL has to date established and maintained.
- ◆ Significant growth is expected in the programmatic media industry which is forecast to double between FY15 and FY18. PPL's programmatic media operations is well placed to capitalise on this industry growth.

Threats

- ◆ Ad Blocking has the potential to impact on revenues if the online advertising industry does not manage it appropriately.
- ◆ Potential threats from large online companies such as Google and Facebook, to impact the online advertising market.
- ◆ Technology changes may impact PPL's programmatic capabilities and reduce its value proposition.

OVERVIEW

PPL is a big data technology and programmatic media company founded in 2000 by CEO Paul Chan. Initially focussing on the provision of online surveys for market research, the company has evolved its customer insights technology to fully target and capture an individual's online profile. The acquisition of Sparc Media Group in May 2015 expanded the business into the area of online programmatic media trading. An Initial Public Offering (IPO) in July 2015, recapitalised the company to partially fund the acquisition and provide working capital to allow PPL to continue its growth in the online media industry.

PPL's offices are located in Sydney, London and India with additional operations based out of the US, and Greece. Sparc has offices in Australia, India and Poland. PPL recently opened its New Zealand office to service its alliance with AA Smartfuel.

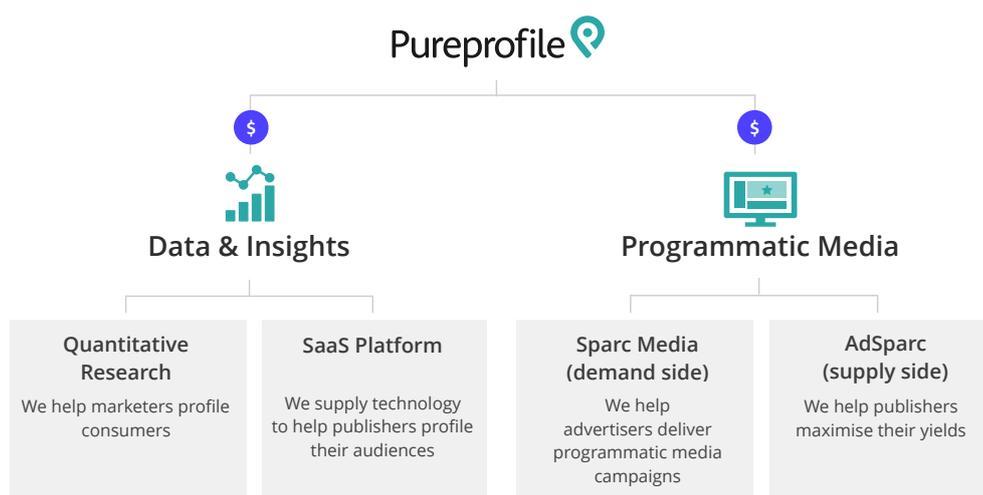
PPL was built from its core online market research operations and is recognised as a disrupter in the market research industry. The alliance with News Limited is testament to PPL's market position and influence on the industry. Whilst it is precluded from working with other media publishers in Australia as a result of the alliance, the company is actively pursuing similar alliances globally. The News Ltd alliance is considered pivotal in allowing consumers to be in control of their profiles and the utilisation of these profiles to monetise advertising which can then be used as currency to unlock content. This "unlocking" of advertising as a currency for content on the internet requires the consumer to be in control of the content to ensure it is relevant and appropriate. PPL stands in a very good position to help create and formulate this disruptive change in the industry.

PPL is also well placed to benefit from the expected growth in programmatic advertising on the internet. The acquisition of Sparc brings to PPL a highly experienced and established programmatic advertising company with the skills required to benefit from this growth.

PPL is in a unique position to combine this programmatic skillset with the existing Data & Insights operations to provide extremely well tailored advertising options to clients and consumers.

BUSINESS MODEL AND PRODUCTS

PPL consists of 2 main businesses: Data & Insights through online market research, surveys and profiling; and programmatic media trading.



DATA & INSIGHTS

Quantitative Research

Since its launch in 2002 PPL has produced and delivered data for research that has been used by brands to create insights for the decision making of their products and services. PPL has built a proprietary web-based platform that enables consumers to create and manage their profiles online. It now represents one of the largest online market research and consumer profiling companies in Australia, with in excess of one million Australian and international profiles. The Company attracts and engages with consumers by rewarding them for providing demographic and consumer lifestyle information. Profiles are considered to be high quality volunteered information. PPL engages the consumer on an ongoing basis combining membership details with surveys and research, as well as sampling and tracking with a suite of big data applications.

Once consumers fill in their profiles and nominate their areas of interest they are offering various surveys to provide their opinions and preferences, and will earn a monetary reward for doing so. Rewards are priced from as little as \$0.05 for a quick survey, up to around \$2.00 - \$5.00 for more detailed surveys and opinions. The rewards are funded by PPL's clients who seek market research about their products as well as to develop brand awareness of their products through targeted advertising. Once account balances reach over \$50, consumers are able to withdraw their rewards by direct deposit into their bank accounts.

PPL has strategically kept the size of its profile base at a constant rate focusing on broadening the demographic and geographic spread of its profiles rather than the total number. There has also been a focus on the depth of information in the profiles, which has generally been achieved by a progressive profiling approach – gaining personal information incrementally over time, generally in very non-intrusive ways and in ways that accord with changes in technology usage. This strategy allowed PPL to grow its online market research business without having to significantly grow the profile database (a broader range of profiles allows a greater variety of research projects).

Alliances

In 2010, PPL launched its Software as a Service (SaaS) platform which licenses its technology to help publishers and brands manage their audience and customer base respectively. Currently the SaaS offering has 2 major agreements which showcase the company's ability to secure major contracts:

- ◆ In June 2015 PPL entered a partnership with AA Smartfuel, a New Zealand rewards program. AA Smartfuel allows consumers to earn points from shopping at retail outlets and convert this into fuel savings at petrol stations. AA Smartfuel is one of the larger reward programmes in New Zealand with around 1 in 3 New Zealand householders being members. Under the partnership AA Smartfuel will cross promote their members to become PPL account holders and allow PPL rewards to be redeemed for petrol savings. Fees earned on surveys from the partnership will be shared between AA Smartfuel and PPL. The partnership positions PPL as a mainstream media offering in the NZ market.
- ◆ In January 2015, PPL entered into a two-year licensing and support agreement with News Limited for it to use the PPL SaaS platform. Under the engagement model, readers of a number of News Limited's paid online publications will be offered subscription credits in exchange for building their online profile via News' "Connect" service. Building this profile rich data will enable News Limited to increase advertising yield and, hence advertising revenue, as well as improve user experience through personalisation. This is an important growth avenue for online publishers with paid firewalls given that only roughly 10% of readers actually pay for membership.

PPL sees significant opportunity to offer the SaaS platform to other content providers on a similar basis. Under its agreement with News, PPL may not provide the service to other online media publishers in Australia, however it may provide it to organisations in other industries and offshore.

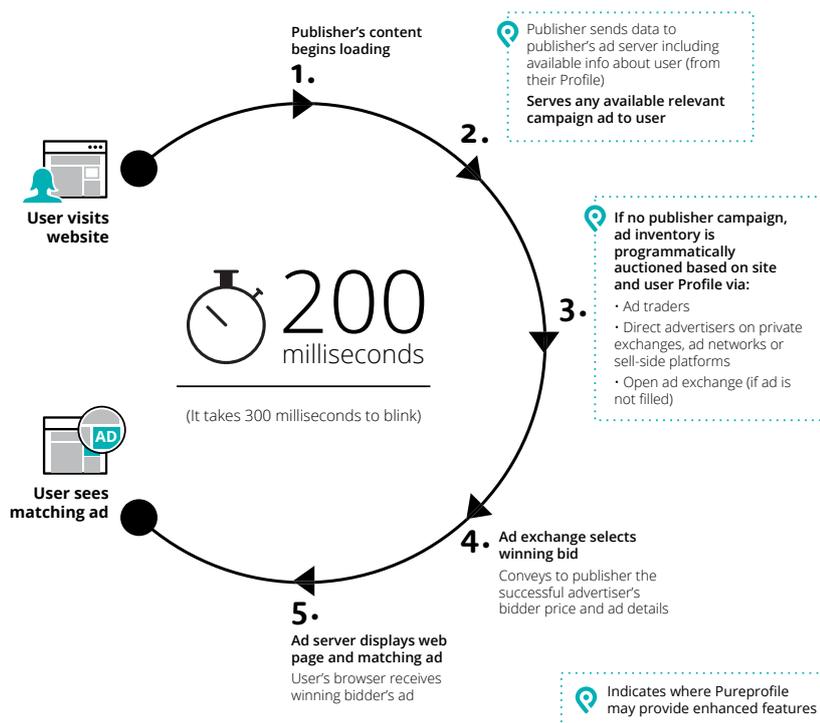
PROGRAMMATIC MEDIA

Programmatic media trading uses data (profiles), algorithms, computers and human expertise to buy and sell online advertising inventory through advertising exchanges. The majority of Sparc's programmatic transactions involve real-time bidding. Real-time bidding is the buying and selling of ad impressions through real-time auctions that occur in the time that it takes a digital ad to load on a web page.

As a user navigates through the web browser, information about the web page and the user's profile is passed to an ad exchange. Advertisers then bid for the right to display their ad to the specific user. The advertiser who bids the highest price wins the auction and their ad is loaded into the user's web page. The whole process normally takes less than a second to complete and the auction process repeats each and every time the web page is loaded.

Advertisers are typically willing to pay more to display their ads to consumers (profiles) that fit their target customer. Generally, the more relevant an ad is to the consumer, the higher the response rate and the more effective the advertisement.

The life cycle of a programmatic ad



PPL's programmatic business consists of both demand side and a supply side:

Demand Side (Sparc Media)

Sparc Media provides managed programmatic campaign services for small and medium sized advertisers and agencies who do not have the capability to be engaged in programmatic advertising directly. Campaigns are undertaken across media, video, mobile and social channels.

Supply Side (AdSparc)

AdSparc is a new business established in late 2014 to capitalise on the rapid growth in demand for non-standard ads (native, rich media, high impact formats) purchased through programmatic real-time bidding. The business works with website publishers to optimise yield through a marketplace for the building, buying and selling of non-standard display advertising.

Sparc also operates a media trading business which uses programmatic expertise, experience and technology to profit from inefficiencies in the markets for display ad inventory. Sparc identifies and buys undervalued ad inventory and then, within milliseconds, Sparc resells it at higher prices through ad exchanges across a variety of global markets.

MARKET OVERVIEW & COMPETITORS

PPL operates in the online market research and programmatic media trading markets.

ONLINE MARKET RESEARCH

According to ESOMAR's Global Market Research Report, the global market research industry generates annual revenue of approximately US\$40 billion. Australia generates around A\$700m in revenue, making it the 10th largest market in the world. Online represents around one third of the Australian market, or approximately \$200m to \$250m in revenue.

Based on revenues, we estimate PPL has a 3-4% share of the online market. The market has seen an increase in online and mobile centric research, coupled with the growth in social networking globally.

A summary of the market research industry is presented in the table below.

Industry Segment	Key Competitors	Competitive Environment
Market research	Global Players <ul style="list-style-type: none"> • Nielsen • WPP's Kantar division Australian Players <ul style="list-style-type: none"> • Roy Morgan Research • Colmar Brunton and AMR Interactive (part of STWGroup) • The Leading Edge and Jigsaw Research (part of Enero Group) 	<ul style="list-style-type: none"> • These competitors rely on research teams using predominantly survey-based research methodologies to capture data from groups/samples of respondents. • These large global firms face significant challenges augmenting their traditional business models with methodological and technological advancements in data collection. • These competitors may commission work from Pureprofile when advanced technological data collection methods are required.
Lower cost self-survey offerings	<ul style="list-style-type: none"> • Survey Monkey (US-based, part owned by Google) • Google Consumer Surveys • AYTM.com 	<ul style="list-style-type: none"> • These platforms enable businesses to access market feedback directly. • Not suitable for more complex research requirements
Online Market Research Panels	Global Players <ul style="list-style-type: none"> • WPP's Lightspeed Research Australian Players <ul style="list-style-type: none"> • DPG's Empowered Communications • Research Now's Valued Opinions • Roy Morgan Research • Cohort Digital • Rewards Central • Australia Online Research 	<ul style="list-style-type: none"> • Highly competitive environment resulting in decreased prices and margins. • Facing challenges engaging with their member bases due to the increased volumes of online market research surveys which has initiated: <ul style="list-style-type: none"> – A decline in prices; – Paying members less in order to maintain margins leading to member churn increasing; – Feasibility falling due to lower response rates.

Source: PPL Prospectus

ONLINE ADVERTISING AND PROGRAMMATIC ADVERTISING

The global online advertising industry is estimated at US\$140 billion with programmatic advertising estimated to account for around US\$15 billion in 2015. PPL estimates the programmatic market will grow to around US\$31 billion by 2018 driven by opportunities to reduce transaction costs and to leverage consumer data at a higher scale to improve efficiencies.

A summary of the competitors in the programmatic industry is presented below:

Industry Segment	Key Competitors	Comment
Demand-sidecompetitors	Global trading desks: <ul style="list-style-type: none"> • Xaxis • Accuen • Affiperf • Amnet • Cadreon Australian players <ul style="list-style-type: none"> • Bench Marketing • Adslot • Yango • Bidr 	<ul style="list-style-type: none"> • These competitors compete with Sparc's programmatic media buying service directly but are potentially also customers.
Supply-sidecompetitors	SSPs (Sell Side Platforms) <ul style="list-style-type: none"> • Rubicon • Pubmatic 	<ul style="list-style-type: none"> • These competitors compete with AdSparc, Sparc's supply side desk and programmatic trading platform
Performancemediaside competitors	Cohort APD Group iCumulus Mediata TPN	<ul style="list-style-type: none"> • These performance marketing groups provide a similar service to Sparc's Future Students lead-generation platform
TargetedProgrammatic	Rocketfuel RadiumOne Gravity4.com	<ul style="list-style-type: none"> • These players use big data for targeting of programmatic campaigns. This is consistent with Pureprofile's targeted programmatic strategy.

Source: PPL Prospectus

CUSTOMERS

Customers within the Data & Insights business include market researchers as well as direct clients and brands.

Market researchers - In the Data & Insights division, the Company's client base are researchers that work for, or are hired by consumer brands or, in some cases, the larger brands directly. The Company supports some of the largest researchers, but the majority of revenues come from medium and small sized researchers. PPL's consumer profile data is often very integrated into these research businesses, so the market research customer base tends to have a high degree of loyalty to PPL and provide repeat business. In many cases, market research clients have been with PPL for more than 10 years.

Brands - PPL's services are provided to a very significant number of brands on a recurring basis over the course of a year. Its engagements also cover governments, political parties and corporations as well. The company has direct engagements with a number of larger brands, such as Nivea and the various VW automobile brands (Audi, Porsche, Skoda, etc). These are often large, integrated projects in which the customers are long-term customers. For example, PPL has been working directly with Audi for four years.

The Company's global client base includes major corporations across many sectors and includes multi-nationals such as News Limited, Disney and Audi as well as major Australian groups such as CBA and University of South Australia. The Company's client base also includes:

- ◆ Other market research companies attracted by PPL's profiling expertise and profile pool. They include Galkal, Galaxy, Lonergan Research, 5th Dimension and Lightspeed, amongst others;
- ◆ Media publishers including Yahoo!7, The Economist and Groupon Australia;
- ◆ Advertisers (direct relationship and acting for their agencies) including eHarmony, Fairfax, Fitness First, Officeworks, and Tiger Airways.
- ◆ Media buying agencies (acting on behalf of major advertisers) such as OMD, Mindshare and Carat;
- ◆ Public relations (PR) agencies and corporate (in-house) PR departments, including Edelman and Ogilvy PR;
- ◆ Academic and applied research studies, including the University of South Australia.

RISKS

We have listed some of the major risks which PPL is exposed to:

Economic conditions - The media and advertising industry is impacted by overall economic conditions. A change in a country's economic position will directly impact the amount of market research required by companies and also impact the level of online advertising spend undertaken by companies.

Key person risk - PPL is dependent on a number of key staff which are core to the business operations. Such key person risk is not unusual for the size of PPL's business, however the loss of any key person may have operational and financial impact on PPL's success. CEO Paul Chan is considered pivotal to the strategy and direction of the company. The programmers within programmatic media have specialist skills which are important to the success of the operations. Key client managers are also integral to the revenue of PPL.

Loss of major clients - While high profile clients such as News Ltd and AA Smartfuel in NZ provide positive momentum for PPL, the loss of a major client will not only impact upon the immediate revenue of PPL but may also have a reputational impact on the success of PPL.

Exchange rate risk - PPL is exposed to exchange rate risk from its NZ alliance with AA Smartfuel, as well as revenue from programmatic trading on overseas platforms.

Technology - The nature of the online market research and media industry is subject to fast paced accelerated change. PPL's market position and technological capabilities is based on its ability to stay relevant and valuable in such a changing market. Structural changes to the programmatic industry and platforms may also impact on PPL's position in the market. PPL also relies heavily on third party technology to run its business and any change in these suppliers will impact on the revenue potential for PPL.

Financial position - With \$2.2m Cash at Bank, PPL will need to monitor its cashflows diligently to maintain solvency levels. There is a dilutionary risk to shareholders from the possibility the company will need to raise additional capital, however we are confident that appetite will exist to support the business.

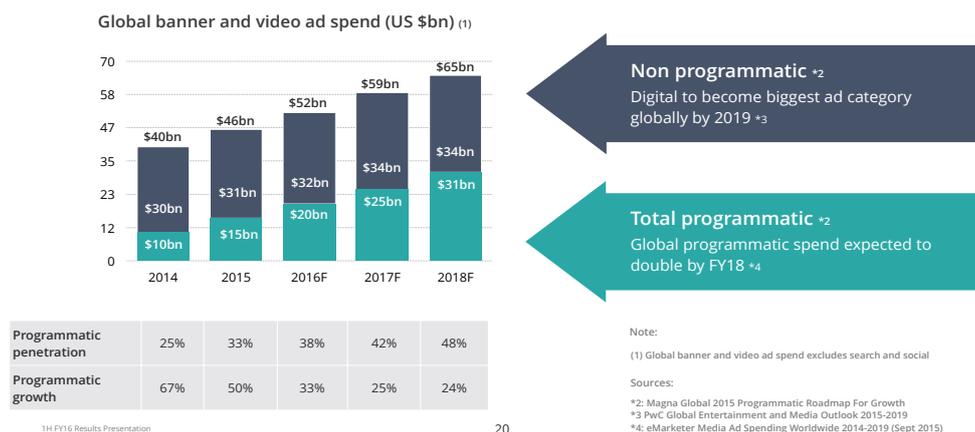
Competitors - PPL operates in a highly competitive and fragmented industry which is subject to fast paced change. There are risks that competitors will move faster than PPL and impact on its growth. The threat of a major competitor could structurally change the industry. For example, Google has recently announced it is looking at the programmatic advertising market through its subsidiary DoubleClick .

AD BLOCKING

The increased use of ad blocking software and interest in ad blocking presents a perceived risk to the revenue stream for online media advertising and banner ads. The potential loss of revenue as a result of ad blocking is likely to be offset by:

- ◆ Growth in programmatic media is expected to more than outweigh any decline as a result of ad blocking. As shown below, programmatic ad purchases are expected to double by FY18 to around US\$31bn globally, compared to US\$15bn in FY15 with growth rates of 24%+ pa expected. At the same time, non programmatic media is only expected to grow to US\$34bn, from \$31bn in FY15;
- ◆ As such, the impact of ad blocking is likely to impact on the non programmatic market more than the programmatic market;
- ◆ By definition, programmatic advertising relies on the acceptance of banner ads in order to initiate the program. Ad blocking is likely to drive agencies towards more programmatic advertising in order to ensure the ads are targets better to consumers who wish to accept and view the ads;
- ◆ The alliance with News Ltd highlights PPL's opportunity to revolutionise the online media industry by allowing content to be subsidised by agreed advertising. The opportunity lies in allowing consumers to participate in the ad process by choosing which type of ads they wish to accept and, in return, accept subsidised access to content on the website. Consumers will see more relevant and engaging messages, which will be of benefit to all parties.

The programmatic media opportunity



Source: PPL

STRATEGY & GROWTH

PPL's strategic focus includes:

Data & Insights

- ◆ Growing the existing businesses in Australia, US and UK, and entering new markets in Europe, Asia and North America;
- ◆ Building the profile database to produce broader and deeper audience segmentation and market intelligence data;
- ◆ Incorporating profile data into managed programmatic and performance marketing; and
- ◆ Extending the publisher partnership model to other publishers and relevant businesses with large databases offshore.
- ◆ Consider bolt on acquisition such as Effective Measure, which can immediately contribute to revenue and growth.

Programmatic Media

Sparc currently operates under its own brand however from 2H16 onwards, Pureprofile and Sparc are planning to jointly:

- ◆ Offer the PPL platform profiling services to Sparc's publisher clients seeking to optimise yields;
- ◆ Develop and launch the AdSparc self-service marketplace for non-standard ads and integrate it into the PPL platform;
- ◆ Develop and launch targeted managed programmatic services based on the PPL platform profiling capabilities and Sparc's understanding of the programmatic ecosystem.
- ◆ Develop profiles through the programmatic ad trading process.

FINANCIAL FORECASTS

The 1H16 results to 31 December 2015 were impacted by an increase in staff costs which is expected to drive revenue in future periods. As a result, Data & Insights business generated a net loss of \$1.3m, Programmatic Media delivered a net profit of \$0.9m and PPL delivered a Net Loss of \$0.4m. Cash at Bank at 31 March 2016 was \$2.2m with a working capital facility available of up to \$15m. The low cash balance will limit any material acquisition in the short term. A summary of our full year forecasts is presented below.

PROFIT & LOSS (\$M)				
Y/E June	2015A	2016F	2017F	2018F
Revenue				
Data & Insights	9.2	11.2	14.2	16.5
Programmatic Media	12.5	18.5	24.0	29.7
Total Revenue	21.7	29.7	38.2	46.3
Survey Fees and other direct costs	-10.9	-13.8	-17.8	-21.7
Gross Profit	10.8	15.9	20.5	24.5
Employee Benefits Expense		-8.9	-11.1	-13.4
Foreign Exchange Loss		-0.2	-0.2	-0.2
Technology, Engineering and License Fees		-2.2	-2.2	-2.2
Share based payment expense		-0.3	-0.3	-0.3
Restructuring, Acquisition and IPO Costs		-0.3	0.0	0.0
Other Expenses		-1.4	-1.9	-1.9
Total Expenses	-10.2	-13.3	-15.6	-18.0
EBITDA	0.6	2.5	4.8	6.5
Depreciation and Amortisation	-1.1	-1.2	-1.3	-1.8
EBIT	-0.5	1.3	3.6	4.7
Interest Expense	0.0	0.0	0.0	0.0
Profit/Loss Before Income Tax	-0.5	1.3	3.6	4.7
Income Tax	0.8	0.2	-1.1	-1.4
NPAT Before Other Items	0.3	1.5	2.5	3.3
Other Items	-0.1	-1.2	-0.7	0.0
NPAT	0.2	0.3	1.8	3.3

Note: 2015A is based on pro forma actuals

COMPANY HISTORY

Pureprofile was established in 2000 by CEO Paul Chan based on the concept of providing consumers with a website to enable them to create and manage their profile in order to be matched with relevant business marketing messages and survey questions. In February 2002 the company conducted its first commercial campaign and launched its platform. In 2003 PPL commenced its UK operations and in 2011 the USA office opened. The USA operations were restructured to become the head company with the UK and Australian operations becoming subsidiary companies.

In 2014 PPL realigned its company structure to make the Australian entity the parent company, and the UK and USA entities becoming subsidiary companies. An alliance with News Limited was also established for Pureprofile to set up the technological framework to manage the online panel for News Limited in Australia through to November 2016.

In May 2015 Pureprofile announced the acquisition of Sparc Media, an online media trading company. The final acquisition price is to be based on the financial performance of Sparc in FY15 and FY16, subject to a minimum price of \$2.5m and maximum price of \$6.6m.

In July 2015 Pureprofile listed on the ASX via an Initial Public Offering ("IPO"), through the issue of 20m shares at \$0.50 per share.

BOARD OF DIRECTORS

The Board of PPL has a broad range of experience across market research, online advertising and marketing, technology and data management.

Andrew Edwards – Non Executive Chairman

Andrew Edwards has over 30 years of marketing experience. Before relocating back to Australia, he was most recently the Chairman and CEO of internationally-renowned advertising and marketing agency Leo Burnett Group UK and President of Leo Burnett Central Europe. Prior to his roles for Leo Burnett, he ran Australia's most awarded direct marketing company, Cartwright Williams, before its sale and amalgamation with Leo Burnett's integrated marketing services network, Arc. Andrew was appointed as Non Executive Director in June 2015 and Non Executive Chairman in March 2016.

Paul Chan – CEO and Managing Director

Paul Chan founded Pureprofile in 2000 and has been Executive Director and CEO since inception. He began his career as a student working on residential property developments before setting up his own real estate company while completing a Bachelor of Land Economics at the University of Technology Sydney. He then became the real estate licensee on the Citivilla luxury hotel managed investment project, and worked at an online property startup before establishing Pureprofile. Paul has been a member of the Sydney Chapter of the Entrepreneurs Organisation since 2008.

Geoffrey Nesbitt – Executive Director and CFO

Geoffrey Nesbitt was appointed Chief Financial Officer in September 2014. He has extensive experience across the marketing and digital communications and recruitment sectors and has managed an extensive list of M&A transactions across Asia Pacific, the US and UK. AS CFO of Enero Group Limited (ASX Code EGG, formerly Photon Group Limited) he played an integral roles in the IPO in 2004. Geoffrey holds a Bachelor of Business degree from Southern Cross University and is a member of CPA Australia.

Clifford Rosenberg – Non Executive Director

Cliff Rosenberg was appointed Non Executive Director in June 2015 and has a wealth of experience across online and marketing companies. He is currently Managing Director for LinkedIn South East Asia, Australia and New Zealand and is also a Non Executive Director of Nearmap (ASX Code NEA), a company that specialises in the generation of high quality maps for businesses. Cliff was formerly Managing Director of Yahoo! Australia and New Zealand for 3 years, and was the founder of iTouch Australia and New Zealand, a leading wireless application service provider. Previously Cliff was head of corporate strategy at Vodafone Australasia and has been a management consultant at Gemini Consulting and Bain Consulting. Cliff holds a Master of Science degree in Management and a Bachelor of Business Science in Economics and Marketing. He is a member of the Australian Institute of Company Directors.

VALUATION

- ◆ Our fair value estimate for PPL is A\$0.85 per share. This is based on a DCF methodology that incorporates the financial forecasts outlined in this report. We consider the forecasts used in the valuation to be conservative in nature and expect a greater likelihood of upgrade as PPL captures growth opportunities from its SaaS platform and programmatic advertising.
- ◆ The key DCF assumptions are a Discount Rate of 13.2%, Risk Free Rate of 3.5%, Market Risk Premium of 6.5% and a beta of 1.50x.

Discounted Cashflow Valuation	
Risk Free Rate	3.50%
Risk Premium	6.50%
Beta	1.50
Discount Rate	13.2%
Present Value (Yrs 1-10)	29.1
Terminal Growth Rate	2.50%
Terminal Cash Flow Amount	8.7
Present Value (Terminal)	23.6
NPV of Cashflows	52.7
Shares on Issue	62.2
DCF Valuation per Share	\$0.85

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

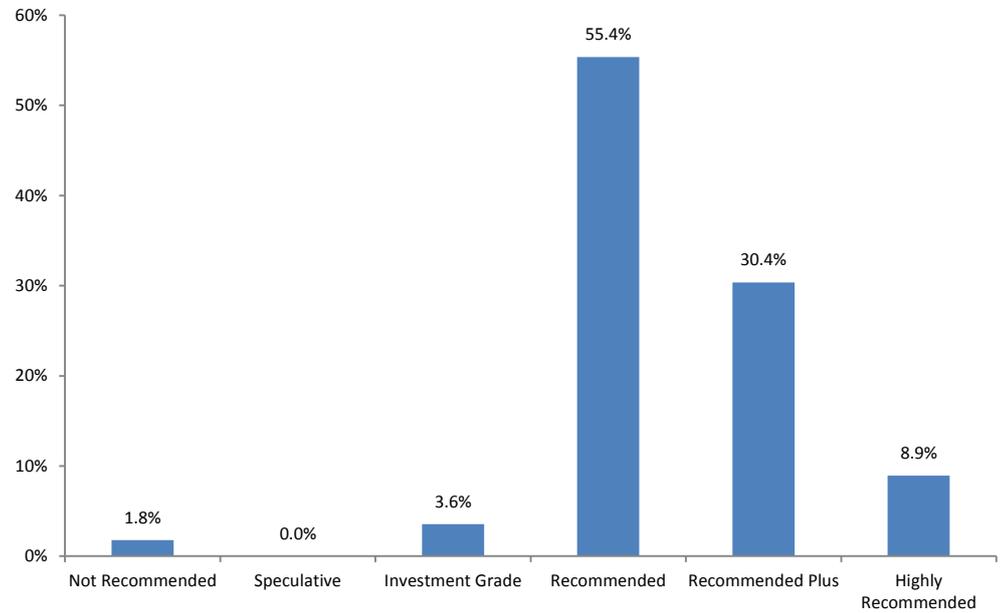
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

GRAPHS	SCORE
	<p>Highly Recommended</p> <p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
	<p>Recommended</p> <p>75-82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
	<p>Investment Grade</p> <p>60-74</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
	<p>Speculative</p> <p>40-59</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>
	<p>Not recommended</p> <p>39 and below</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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