Swift Media Limited

A Triple Play of Growth Drivers

Share Price: A$0.16

Valuation range: A$0.75-0.84

ASX: SW1

Sector: Media & Entertainment

30 April 2019

Unique combo of technology, content and advertising

Swift Media Limited (ASX:SW1) is a technology, content and advertising service provider focused on the fast-growing closed loop and digital out-of-home market. It serves an installed base of ~73,000 screens (forecast for YE FY19), offering digital entertainment solutions to a range of verticals, including hotels, aged-care and the resources industry.

Advertising to leverage installed base of screens

SW1 has recently acquired the Digital Out-of-Home (DOoH) advertising business of Medical Media. DOoH advertising in Australia is growing at nearly 16% CAGR, which provides a strong revenue driver for SW1. SW1 intends to leverage its unique captive audience by offering highly targeted, high value advertisement opportunities to advertisers.

Operational synergies to drive margin expansion

Medical Media's advertising business has a c.10% higher gross margin than SW1's current businesses. As A$3M in synergies set into the system and further network monetisation takes place, we expect the group's margins to expand significantly.

Valuation range of A$0.75–0.84 per share

We believe SW1's commercial opportunities and revenue potential are not accurately reflected in the company's current valuation. Driven by growth in the number of screens, the Medical Media acquisition and the new revenue stream from digital advertising on the installed base of screens, we value SW1 at A$0.75 per share in our base case and A$0.84 per share in an optimistic scenario, based on a blend of Discounted Cash Flow (DCF) and Sum Of The Parts-based relative valuations.

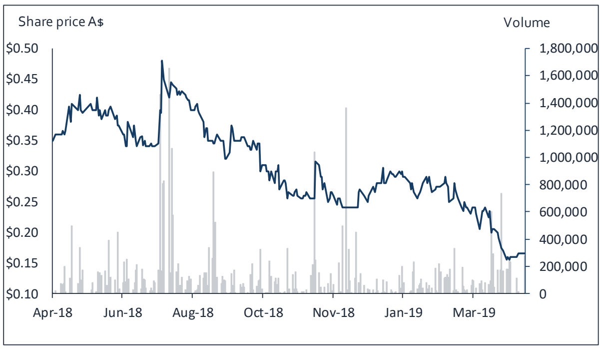
Year to June (A$)	2017A	2018A	2019f	2020f	2021f
Sales (m)	17.0	22.3	30.3	45.0	54.2
EBITDA (m)	1.0	2.7	4.4	10.0	14.2
Adj. Net Profit (m)	0.9	-0.1	0.9	4.4	7.6
EBITDA Margin (%)	5.9%	12.1%	14.7%	22.3%	26.3%
ROA (%)	6.2%	-0.7%	3.2%	11.8%	17.7%
EPS before extr. & amort.	1.03c	-0.12c	0.62c	2.86c	4.94c
EPS	-1.57c	-6.90c	0.62c	2.86c	4.94c
DPS	0.00c	0.00c	0.00c	0.00c	0.00c
EV/Sales	NA	-0.1x	0.7x	0.4x	0.2x
EV/EBITDA before extra	NA	-1.2x	4.8x	1.8x	0.7x
P/E before extra	NA	0.0x	26.0x	5.6x	3.2x
Dividend yield %	NA	NA	0.0%	0.0%	0.0%

Source: Company, Pitt Street Research

Market Cap. (A$ m)	24.6
# shares outstanding (m)	154.0
# share fully diluted	252.0
Market Cap Ful. Dil. (A$ m)	40.3
Free Float	90.3%
12 months high/low (A$)	0.48 / 0.14
1 / 3 / 12-month performance	-33.3% / -42.9% /-55.6%
Website	www.swiftmedia.com.au

Source: Company, Pitt Street Research

Share price (A$) and avg. daily volume (k, r.h.s.)



Source: Thomson, Pitt Street Research

Valuation metrics	
Fair valuation (A$)	0.75-0.84
WACC	10.7%
Assumed terminal growth rate	2.0%

Source: Pitt Street Research

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Profit & Loss (A$ '000)	2017A	2018A	2019f	2020f	2021f	2022f	2023f
Sales Revenue	**17,005**	**22,280**	**30,307**	**44,953**	**54,225**	**63,324**	**70,270**
Operating expenses	(4,389)	(6,567)	(10,170)	(14,296)	(16,008)	(17,443)	(18,632)
EBITDA	**1,006**	**2,695**	**4,444**	**10,027**	**14,244**	**18,837**	**23,100**
Depn & Amort	(1,122)	(2,581)	(3,417)	(3,747)	(3,636)	(3,521)	(3,481)
EBIT	**(116)**	**114**	**1,027**	**6,281**	**10,609**	**15,316**	**19,620**
Net Interest	7	(81)	(79)	(212)	(113)	72	273
Profit before tax (before exceptionals)	**(109)**	**32**	**948**	**6,069**	**10,496**	**15,388**	**19,893**
Tax expense	1,002	(169)	-	(1,669)	(2,886)	(4,232)	(5,471)
Abnormals + Minorities	(2,256)	(7,592)	(3,865)	-	-	-	-
NPAT	**(1,364)**	**(7,729)**	**(2,917)**	**4,400**	**7,609**	**11,156**	**14,422**

Cash Flow (A$ '000)	2017A	2018A	2019f	2020f	2021f	2022f	2023f
Profit after tax			(2,917)	4,400	7,609	11,156	14,422
Depreciation			3,417	3,747	3,636	3,521	3,481
Change in trade and other receivables			(848)	(2,076)	(1,314)	(1,290)	(985)
Change in other current assets			(29)	(468)	(180)	(264)	(89)
Change in trade payables			(23)	1,856	1,257	1,155	562
Operating cashflow	**(130)**	**2,643**	**(2,400)**	**7,459**	**11,008**	**14,279**	**17,391**
Capex (- asset sales)	(1,337)	(2,566)	(2,261)	(3,446)	(2,608)	(2,941)	(3,102)
Other investing activities	(399)	(5,557)	-	-	-	-	-
Investing cashflow	**(1,736)**	**(8,123)**	**(2,261)**	**(3,446)**	**(2,608)**	**(2,941)**	**(3,102)**
Dividends (ords & pref)	-	-	-	-	-	-	-
Equity raised (repurchased)	1,805	6,445	-	-	-	-	-
Debt drawdown (repaid)	(909)	-	4,000	(500)	(2,300)	(2,300)	(1,400)
Net change in cash	(970)	964	(661)	3,513	6,100	9,038	12,889
Cash at End Period	2,238	3,202	2,541	6,054	12,154	21,192	34,081
Net Debt (Cash)	(2,238)	(3,202)	1,959	(1,554)	(9,454)	(20,292)	(34,081)

Balance Sheet (A$ '000)	2017A	2018A	2019f	2020f	2021f	2022f	2023f
Cash	2,238	3,202	2,541	6,054	12,154	21,192	34,081
Total Assets	14,481	25,278	34,839	39,995	45,961	55,372	68,356
Total Debt	-	-	4,500	4,500	2,700	900	-
Total Liabilities	8,340	17,418	17,108	17,863	16,221	14,476	13,037
Shareholders' Funds	6,141	7,860	17,731	22,131	29,740	40,897	55,319

Ratios	2017A	2018A	2019f	2020f	2021f	2022f	2023f
Net Debt/Equity (%)	-36.4%	-40.7%	11.0%	-7.0%	-31.8%	-49.6%	-61.6%
Interest Cover (x)	NM	NM	NM	NM	NM	NM	NM
Return on Equity (%)	14.5%	-2.0%	7.4%	22.1%	29.3%	31.6%	30.0%

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Table of Contents

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Key reasons to look at Swift Media

1) SW1 has a large and growing installed base of digital out of home screens (we project ~73,000 per year-end FY19), generating recurring revenues of approximately A$360 per screen per annum with 45% gross margins on average. We anticipate gross margins to grow to 50% in the next few years.
2) Following the recent acquisition of Medical Media, SW1 now also generates revenues from digital OoH advertising, a market expected to grow by 16% CAGR on average over the next 5 years in Australia. Gross margins for the digital advertising business are currently at ~70%, expected to grow towards 80% in the next few years. Overall, SW1 expects to derive A$3M in synergies following integration of the Medical Media acquisition into SW1's existing business.
3) SW1 has started to deploy Medical Media's digital advertising expertise in its existing entertainment business to leverage this expertise and drive revenues through new digital advertising revenue streams from national and local advertisers. SW1's valuable insights into user behaviour and viewing preferences allow for high pricing of digital ads. Combined with the near-zero marginal costs of these new revenue streams in SW1's existing business, we anticipate digital advertising to this captive audience will generate very high gross margins.
4) SW1 is set for strong expansion internationally. Through its attractive content licensing deals with some of the world's largest content providers, and collaboration with large multinational reseller partners, SW1 should be able to expand into new geographies without any need for costly investment, driving revenues at attractive margins. We believe international expansion, i.e. other than through the Australian military, presents a very substantial opportunity for SW1 and is a pivotal driver for the next phase of growth.
5) In our view, SW1's current valuation doesn't accurately reflect the company's commercial opportunities described above. Our revenue growth and margin forecasts, derived from the new business combination, indicate a value well in excess of today's share price.

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Focus on advertising

Swift is positioning itself to benefit from the strong growth in Australian digital advertising, especially video.

ASX-listed Swift Media Limited (SW1) is a technology, content and advertising service provider focused on the fast-growing closed loop and Digital Out-of-Home (DOoH) market. Its offering of content and network solutions includes premium entertainment content, voice and data communication services and wireless networks. Traditionally, SW1 has focused on providing content and technology services to closed loop environments in the resources and energy exploration industries, aged-care & retirement homes, and hospitality sectors. More recently, SW1 has added the ability to extend its offering to include highly targeted DOoH advertising, most notably via the acquisition of the advertising network, Medical Media.

Medical Media acquisition expected to increase the growth trajectory of SW1 by adding highly targeted advertising.

In February 2019, SW1 acquired a 100% stake in Medical Media for an initial $4.5m in scrip and an additional $20.5m in Performance Shares to be issued subject to certain advertising revenue targets. Representing less than 6 times earnings valuation at full vesting of the Performance Shares, the Medical Media business acquisition is highly earnings accretive for SW1. With over 1,500 screens and sites across Australia, Medical Media offers its stable of more than 2,500 local and national advertisers the unique opportunity to advertise in the trusted environment of Medical Practices with high dwell times of over 30 minutes per person per visit. The transaction positions SW1 favourably to capitalise on the growing DOoH advertising market, combining SW1's premium out of home content with Medical Media's network of advertisers and practices.

In summary, Swift provides:

1) world class content

2) delivered to unique, owned, addressable audiences

3) receiving premium targeted advertising driven by data science

On the back of Medical Media's wide reach across medical practices, extensive inventory of local advertisers, and growing relationships with global and regional brands, we believe the SW1 investment narrative becomes even more compelling.

Historically, the resources sector has provided the biggest revenue opportunity for SW1. Over the last few years the company has managed this sector risk through diversification across other industry verticals, and the addition of the advertising revenue stream further improves its investment narrative. Through the Medical Media acquisition, SW1 is executing on its strategy to acquire closed-loop networks in fast-growing out-of-home verticals.

Leveraging its captive audience through intelligent advertising

Another key strategic development is SW1's move to start targeting its existing, captive, audience with advertising. Because SW1 has key insights into its users' demographics, viewing behaviour and preferences, the company is able to offer highly targeted advertising capabilities, which are usually valued substantially higher than more generic advertising, such as free-to-air TV and radio ads. Consequently, we expect strong demand for SW1's advertising services going forward.

Higher growth, higher margins going forward

We believe the biggest advantage of the Medical Media acquisition is that it provides SW1 the leverage to further monetise its existing captive audience through the addition of highly targeted advertising, delivering accelerated revenue growth and significantly higher profitability going forward. Medical Media's current business operations have c.10–15 percentage point higher gross margin than SW1's content and network operations. With management's expectation that advertising will contribute c.30% to revenues by FY2020E, the profitability of the group is expected to expand significantly.

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Traditional powerhouse of content & network

An average of 220 minutes of dwell time per day across each of SW1's ~73,000 screens.

SW1 has closed attractive content licensing deals with some of the world's largest content providers.

SW1 does not face competition from other global OTT players, e.g. Netflix, Stan, and Amazon Prime, as it caters to the B2B segment, unlike others that focus on B2C.

1. **Entertainment:** SW1 started operations in 2008 as a provider of digital entertainment solutions, primarily to the resource sector of Western Australia. The company specialises in deploying entertainment systems that can operate in closed-loop and remote networks and has thereby quickly gained a significant market share of ~30% in the resource sector.

   The company has grown rapidly in recent years, from just 33 sites in 2016 to ~370 sites today. We estimate the company will have an installed base of approximately 73,000 screens by the end of FY19. Users typically watch 220 minutes of content per day (dwell time) on SW1's screens.

   SW1 provides a variety of leading linear and on-demand entertainment to its clients through the various agreements it has entered into. SW1 has negotiated attractive content licensing agreements with some of the world's leading content providers, including 20th Century Fox, Warner Brothers, DreamWorks and Sony Pictures, allowing it to offer the latest movies, sports, gaming, and lifestyle channels to its customers.

   As content is king in the entertainment industry, we believe these content licensing agreements are instrumental in driving SW1's revenue growth, now and in the future.

   In 2016, SW1 further expanded by entering new verticals, including aged-care centres, retirement homes, and lifestyle villages, through the acquisition of Web2TV and Living Networks. In doing so, the company not only expanded its portfolio of rooms served but also gained access to new geographies on the Australian East Coast. The VOD acquisition in July 2017 delivered 26,000+ rooms in hospitality, predominantly on the east coast of Australia.

   In order to keep up with the changing dynamics of the market, SW1 signed an agreement with Future TV to provide original Chinese content to its hospitality and student accommodation verticals. Consequently, SW1 became the first broadcaster to introduce Chinese entertainment content from the Future TV Group to the Australian market. This move was in response to the growing number of Chinese short-visit travellers whom Australia has been attracting, as evidenced by the 6% YoY uptick to 1.43m in 2018, which surpassed the number of travellers from New Zealand.

   Going forward, we expect SW1 to expand further into the verticals it currently serves, thereby adding more screens to its installed base. Additionally, the company is likely to enter into new verticals it can serve with its current technological expertise.

Lumiair is pivotal in executing SW1's OTT strategy and plays into the strong BYOD trend.

(See also point 6)

2. **OTT offering through Lumiair:** SW1's latest offering, Lumiair, is its first Over the Top (OTT) product that provides the latest premium content to guests in the hospitality industry. The product is available both in the form of a website and a mobile application, so customers do not need to incur any additional system installation costs. Content consumers simply bring their own device to log on through Lumiair and watch content, similar to how they watch content on Netflix.

   This opens new market opportunities for SW1 with small hotels, motels, holiday villas, caravan parks in Australia, as well as being potentially deployable in overseas hotels with high speed broadband connections. SW1 recently announced their Lumiair product is now operational at

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over 100 new customer sites and more than 3,000 rooms since launching in November 2018.

As no hardware installation is involved, the time it takes to set up this offering and begin its usage is substantially less than for the traditional set-top box service. These advantages make it ideal for smaller establishments, such as boutique hotels and highway motels, and this increases the company's penetration into the hospitality domain. The recent shift in the video content consumption pattern among Australians – from broadcast VOD to Subscription VOD (SVOD) – also acts as a driving force for Lumiair. Notably, revenue from the SVOD segment in Australia grew 90% YoY to A$700m in FY2018, while subscriptions posted a YoY uptick of 54% to 9.1m subscribers as of June 2018. We believe this shift in the video consumption trend represents a good opportunity for Lumiair, as people are moving away from traditional broadcast TV to internet-based solutions that offer content more customised to their tastes. Another advantage that SW1 enjoys over B2C OTT players is that Lumiair gets access to the latest movies well in advance of its competitors.

SW1's integrated systems can provide home entertainment and communication within one system.

3. **Internet and Telecommunications:** In addition to providing home entertainment solutions, SW1 supplies internet and telephony services to its clients ensuring its guests are always in touch when they need to be. The majority of SW1's end customers are temporarily displaced people, such as Fly-In, Fly Out (FIFO) workers and tourists, who require a reliable network to keep them connected to both their work and their homes. SW1 provides internet and in-room Wi-Fi services to its guests, in addition to telephony services.

4. **My Community and My Family:** SW1 provides various applications designed specifically to cater to the needs of residents of aged-care and retirement facilities. While SW1's 'My Family' app allows family members to share photos and messages that can be delivered directly to their TV screens, the 'My Community' app allows residents to keep in touch with activities in their neighborhood.

5. **Design and Engineering:** The company provides a full suite of services for the deployment of digital entertainment and communication solutions – from feasibility studies to test the harsh environments of the resource sector to ongoing support and maintenance services. For residents of its clients' facilities, the company provides 24/7 support services to ensure that systems are running smoothly. Significantly, SW1 provides weather and safety alerts to residents who are working on difficult terrain.

   SW1's engineers and technicians work with clients to design and construct communication and entertainment solutions that are best suited to their particular needs, meet industry and country standards, and are scalable enough to accommodate any future expansion in the clients' operations. SW1 assigns a dedicated project manager to each client to better understand his/her needs and ensure the deployment is carried out smoothly. Once system construction is over, the company conducts tests in compliance with the Factory Acceptance Testing (FAT) and Quality Assurance standards.

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SW1 is monetising the strong BYOD trend through its apps and Lumiair.

6. **Monetising the Bring-Your-Own-Device trend:** Keeping newly emerging requirements in mind, SW1 has developed mobile apps that provide users with the ability to access Swift services through their own devices. In addition to the aforementioned Lumiair, the 'Swift Entertainment' app allows users to access all of the premium entertainment through their mobile devices, and the 'Swiftville' app allows site owners to access information within a facility at the touch of a button, sending important information directly to guests via a pop-up alert system.

   The apps are expected to undergo further enhancement, especially for retirement home clients. Its enhancements will include a customised proposition; namely, a set of channels for aged-care facility residents, among other new features.

DOoH advertising: Potent addition to the portfolio

Over the next four years we predict a massive growth in DOoH advertising in Australia that might surprise many observers of this sector. This growth will be driven by step changes in three factors:

- **Content**: SW1 is offering high end content with significant power to engage viewers.
- **Audience**: This attractive content results in a captive audience that is highly attractive to advertisers, i.e. with long dwell times, hyper local across multiple verticals.
- **Technology**: SW1's various platforms (in-room screens, large OoH screens, mobile apps) offer different advertising channels to national and local advertisers.

We lay out below the various drivers of growth in the discussion below. We believe that the move from traditional OoH advertising in favour of DOoH in terms of audience and technology reached a tipping point around 2013.

The reason we argue a significant amount of new business can come SW1's way is that no peer can offer the range of digital advertising options that SW1 can. Consequently, as illustrated in the valuation chapter below, we submit that a key reason for SW1 being worth up to four times the current share price is its ability to ride the DOoH wave.

Digital OoH advertising growing at 16% CAGR in Australia

According to Business Insider, Australia is the seventh-largest advertising market worldwide, with a growing share of OoH advertising spend.

The acquisition of Medical Media brings an entirely new revenue stream to SW1; Digital OoH advertising. As per Nielsen's 2017 Online Activation Survey, OoH continues to deliver more active online activity per ad dollar spent compared to offline media. Outdoor media accounts for c.26% of gross search activations generated by television, radio, print, and OoH combined, but it only accounts for 7% of the total combined advertising spend (it was only c.3% in 2002).

According to Statista, the revenue share of digital in OoH advertising in Australia stood at only 7.5% in 2012 and grew to 47.3% in 2017 and more than 50% in H2 2018.

According to the PwC-IAB Online Advertising Expenditure Report, for the 12 months ending June 2018, the total online advertising market revenue stood at A$8.5bn, with the share of mobile and video ad expenditure at c.58%. OoH in Australia is expanding at a time when all other non-digital advertising formats such as print, radio and free-to-air television are contracting, and the largest industry players are consolidating to attain higher traction. All

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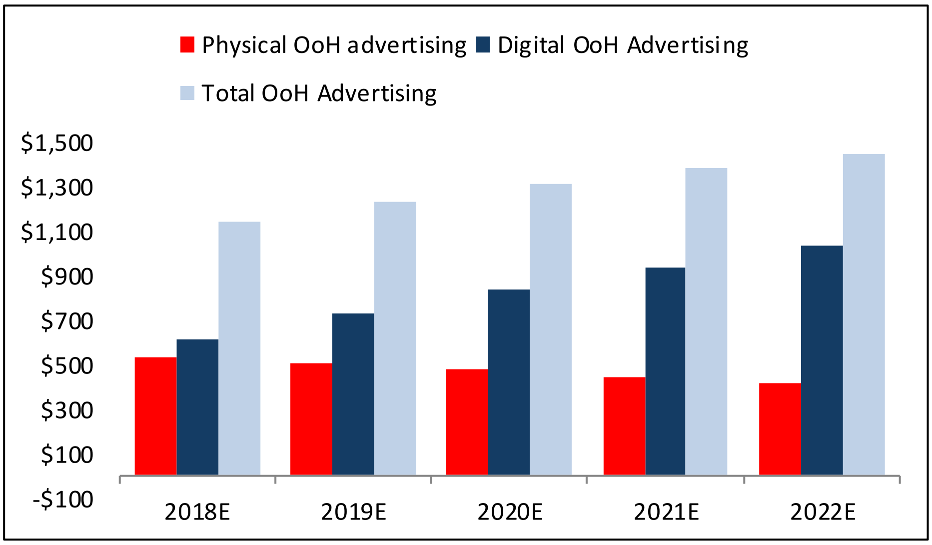
the leading players – including local players such as APN Outdoor, oOh!media, and Adshel and global giant JCDecaux – are involved in competitive bidding and counter bidding.

PwC forecasts suggest that total OoH advertising in Australia is expected to grow at a 6.7% CAGR over 2018–22 (see Figure 1). During the same period, DOoH is expected to grow at a 15.9% CAGR, while physical OoH is expected to decelerate at a 5.7% CAGR. This clearly highlights that within advertising, if OoH is the single biggest growth driver, digital is its mainstay. In Australia, the influence of mobile, video, and digital display is expected to continue to grow significantly.

Figure 1: Digital OoH advertising growing strongly in Australia



Source: PwC Australia, Pitt Street Research

Digital OoH will complement SW1's existing services

Considering the consistent expansion in market revenue, it is imperative to highlight the main drivers of DOoH advertising that will support SW1 with incremental growth opportunities:

High dwell times and strong user insights make for a captive audience that is highly valuable to advertisers.

- Medical Media's DOoH ads utilise video formats which cannot be skipped or fast-forwarded unlike other digital advertising media. Thus, SW1 can attain more visibility in high dwell time environments, such as a waiting room.
- Targeted advertising to a captive audience with high dwell times is expected to strengthen SW1's relationship with its existing and new advertising clients.
- The migration of advertising budgets away from traditional free-to-air (FTA) TV in favour of on-demand entertainment will enable SW1 to leverage its paid content portfolio.
- New technology facilitates easier hyper-local and national advertising. A wider pool of advertising clients is likely to diversify the incumbent base.
- DOoH allows for a content-first approach that engages viewers and primes them for an ad message. This is complementary to SW1's existing business model of superior content distribution.

Through Medical Media's acquisition, SW1 intends to reap the significant opportunities that digital OoH advertising provides.

- Consolidation in the space presents opportunities to reach larger audiences more easily. Wider site presence of SW1 will complement Medical Media's screen presence. Taken together, the two networks now reach a scale that is highly attractive to national advertisers seeking to increase the reach of their advertising message.

Medical Media crucial to SW1 for several reasons

In light of the above, we believe the importance of the Medical Media acquisition to SW1 is threefold:

Firstly, Medical Media's existing business adds more than A$7M (FY18) in high margin revenues to SW1's top line.

Secondly, introducing SW1's technology into Medical Media's operations should result in cost benefits and higher operational efficiencies, driving profitability. SW1 expects to derive A$3M in synergies following integration of the Medical Media deal.

And lastly, using Medical Media's advertising capabilities will allow SW1 to approach national advertisers/brands to advertise on SW1's existing network of screens and target the company's captive audience. We will elaborate below.

Leveraging existing audience through advertising

In addition to moving into Digital OoH advertising, i.e. Medical Media, SW1 has also recently made the strategic decision to start leveraging its existing audience through highly targeted advertising to this audience. As alluded to earlier, SW1 has valuable insights into the demographics and viewing behaviour of its content consumers and can therefore offer highly segmented target groups to advertisers in various models, such as share-of-voice advertising, CPM (Cost per thousand impressions) or hybrid models.

Significant synergies between SW1's screens network, advertising inventory, content.

There should be a significant operating synergy between the company's screens network, advertising inventory and content to derive substantial revenues from this intelligent advertising to SW1's content consumers. This is especially true given the high value of such advertising; not only is it highly targeted, but ads can't be skipped by SW1 users. They are typically shown before the actual content requested by a viewer, i.e. pre-roll, ensuring high return on investment for advertisers.

Steady deal flow to execute the strategic vision

We believe SW1's appetite for acquisitions and ability to complete a merger within three months provides investors with a high-reward opportunity.

In the past two to three years, SW1 has made systematic investments in upgrading its service offerings through the organic and inorganic route. It has steadily acquired new technologies and access to industry verticals, making the company truly diversified, growth-oriented, and increasingly profitable.

To complement the Medical Media acquisition, target areas for SW1's future acquisitions are additional screen networks, and advertising technology.

With each acquisition, SW1 has either improved its ability to provide technologically better services within the same industry and/or entered a new sphere in an underlying industry. The initial acquisitions (Web2TV, Living Networks, Movie Source, and VoD) were all small acquisitions that helped the company get a foot in the door in the in Aged Care/Lifestyle and Hospitality sectors. Web2TV and Living Networks provided the commercial contracts to expand within the aged-care industry, including geographic expansion into New South Wales and Victoria, while VoD provided SW1 entry into the hospitality sector nationwide.

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The SW1 management team's capability to integrate the acquired businesses (from a commercial, operational, and technological perspective) within three months is a huge win for the company. This enabled SW1 to quickly reap the synergy and economic benefits. The operational leverage that management drives from completing the integration in such a short period of time is extremely beneficial.

While SW1 will continue to look for small bolt-on acquisitions, its debt-free balance sheet has the capability to support large acquisitions. Bearing in mind that SW1 is operating in an industry that is still evolving (with new Over the Top players), the inorganic route will be one of the most important ways to expand service offerings.

Diversified business model facilitates growth

From humble background to market leader

In 2016, Stanfield Funds Management Limited merged Swift Networks Pty. Ltd. and Wizzie Pty. Ltd. to make the Swift Networks Group. Swift began operations in 2008 as a digital entertainment solutions integrator for the resource industry. It used to design, develop, and implement integrated Digital Entertainment Systems (DES) on contracts for the energy and resource sectors. Swift has since added an array of product enhancements most notably sector specific curated content, two-way communication functionality such as the My Family/My Community apps, Bring Your Own Device (BYOD) and its hardware-free "Lumiair" product to its suite of offerings .

Upscaling of service is a constant for SW1

One of the main factors supporting SW1's strong growth in its volume-centric, technologically driven business is the consistent upscaling of its services. SW1 has always portrayed itself as a technology company with high-quality content. Its lower-cost premium content and end-to-end solutions have been the biggest attractions for the resources and energy industry. Starting with basic FTA television, SW1 has moved to subscription-based premium content, customised content, network support for content delivery, and high-speed network infrastructure engineering solutions, etc.

The price of basic TV services has not increased much in the past few years; SW1 has been complementing the basic package of services with network support, mobile telephony, set-top boxes, etc. The bundled package has resulted in a high degree of client stickiness (c.90% retention rate) and a solid profitability of 40–50% gross margins. The per-month room rate (across industries and verticals) now stands at A$10–75. The average room rate in the resource sector is much higher at A$45–60 per room, per month. As more aged-care facilities, retirement centres, and hotels join SW1's stable of operational sub-sectors, the possibility of revenue expansion increases.

Scalable business with recurring revenue and high operating leverage

SW1's operations are easily scalable. New contract wins and exclusive distribution rights do not need any extra internal infrastructure for deployment. The technological support required to expand services into a new territory is also minimal. Advertising will not require any specific investment for outreach; it will monetise the current network of screens.

Another important aspect of SW1's business operations is the model of recurring revenues. Users' everyday dependency on these services for recreational activities and connectivity will ensure that the revenue is recurring in nature. The need for these services is paramount within aged-care and retirement centres. In the resources industry, the deployment of DES and network infrastructure is for the long term; therefore, SW1's operations have a steady cost structure resulting in strong operating profitability. Furthermore, SW1 provides stickiness to its reseller partners by providing diversity of product offering in the highly commoditised IT/Telecommunications sector.

The direct sales channel and its growing network of reseller partners keeps costs lower and improves SW1's reach across industry verticals. SW1 has stated a strategic intent to grow its reseller network to account for an increasing percentage of new revenue. Furthermore, using the reach of large multinational IT/telecommunications firms as reseller partners and highly favourable content supply agreements allows SW1 to manage its costs in the face of rapidly growing revenues.

The cash flow positive operating model and access to banking facilities provide SW1 the flexibility to scale up operations through the inorganic route by plugging gaps across the distribution channel or underlying technology.

Overseas expansion provides large opportunity

Having covered the resources, energy, hospitality, aged-care, retirement home, maritime, government, and student accommodation industries, SW1 is also targeting off-shore military establishments. The company has obtained regulatory approval to take its OTT products internationally through its global collaborators.

International, premium content distribution rights are key in driving SW1's international expansion.

SW1 has already made a breakthrough into overseas markets via its contract with the Australian Department of Defense for providing services to off-shore military camps in the UAE and Vietnam. It has also established a three-year reseller contract with a Vietnam-based systems integrator to deploy SW1's hospitality solutions into over 500 hotel rooms across three resorts in Vietnam.

The company has been able to offer an attractive cross-border solution, given its international distribution rights with premium content providers. In other words, we believe international expansion, i.e. other than through the Australian military, presents a very substantial opportunity for SW1 and a pivotal driver for the next phase of growth.

Broad client base hedge against cyclical risks

Initially, SW1 catered to only the resource sector in Australia. In far-flung exploration centres (primarily in Western Australia), SW1 used to design, develop, and implement fully integrated digital entertainment systems. This would comprise IPTV solutions, satellite communications, in-room entertainment devices, digital content, and network infrastructure. With the resources sector downturn of 2011-2016, SW1 commenced a strategy to explore beyond its traditional resource sector to diversify its revenue sources.

Consequently, SW1 added a new dimension to its operations – divergence into additional growth industries. Once solely dependent on the resource industry's investment cycle, SW1 has become resistant to cyclical risk on the back of its current exposure to multiple industries. SW1 believes there is significant potential for digital entertainment systems in these industries, primarily as they are relatively untouched by competitors. With entry into aged-care centres, retirement homes, and the hospitality sector, the company has not only diversified its operating risk and revenue base, but also moved one step ahead of its competitors.

Competitive landscape

Australian OTT market is a harbinger of opportunity

We have witnessed explosive growth in VoD services among Australians in the last five years. The entry of Netflix in 2015 dramatically altered the way in which the country's audience consumes video content. PwC projects that the Subscription Video-on-Demand (SVOD) market will grow at a 30.1% CAGR to A$3.2bn over 2018–2022. The shift in the consumption behaviour is driven by increasing internet penetration in the country, coupled with the rising popularity of this service among the 18–24-year-old demographic due to the convenience associated with the availability of content. This growth opportunity has attracted many players to the industry, including Amazon Prime and Stan (joint venture of Nine and Fairfax); however, Netflix continues to hold the lion's share of users.

SW1 enables content providers to tap into new, highly valuable audiences they have been unable to reach.

The increasing popularity of SVOD services among people aged 18–24 provides a great opportunity for media companies, allowing advertisers to finally tap into this segment, which has long eluded them due to the demographic's aversion to linear TV.

SW1 does not face competition from other global OTT players, e.g. Netflix, Stan, and Amazon Prime, as it caters to the B2B segment, unlike others that focus on B2C.

Companies to watch in content distribution and OoH advertising

When we examine the peer pool, there is a limited number of companies that offer both network services and content. None of the direct peers are listed, and their service offerings are generally less comprehensive vis-à-vis SW1's. The diverse digital entertainment service offerings, range of content, back-end maintenance support network, and diversified end-client industry base make SW1 unique and well-positioned for above-average growth.

Considering the two major segments of revenue for SW1 – content and network, and advertising – we believe the following listed companies represent a mix of both the segments adequately:

- **oOh!media Limited** (ASX:OML): OML provides OoH media solutions to companies based in Australia and New Zealand. The company deploys classic as well as digital screens in various places, including shopping centres, airports, pubs, universities, and on the roadside. OML also engages in producing content and providing digital printing solutions.
- **QMS Media Limited** (ASX: QMS): QMS engages in providing OoH advertising and media services to companies based in Australia and elsewhere. QMS provides both static and digital billboards, as well as transportation and sport advertising and media solutions.
- **Beyond International Limited** (ASX:BYI): BYI engages in the production and copyright of TV and digital content, as well as international distribution of TV series and feature films. Additionally, in the Australian and New Zealand markets, BYI engages in the physical distribution of content through DVDs via its Home Entertainment segment (BHE), along with offering digital marketing solutions.

Conclusion: A triple play of content, advertising and technology to drive SW1's long term growth

In our view, the three elements that, combined, comprise SW1's unique offering, i.e. content, advertising and technology, should enable the company to drive revenue growth going forward. Specifically, leveraging Medical Media's digital marketing expertise across SW1's high-value user base should result in a new, high margin, revenue stream.

Combined with revenues from Medical Media and SW1's existing business, we anticipate strong revenue growth at high margins, which we believe justifies a strong valuation uplift going forward. We will elaborate on this in the Valuation chapter.

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Driving revenue growth through DOoH business

Leveraging the installed base of screens through advertising

SW1 has built a steady and recurring income stream through its core content and network business. In order to accelerate growth, SW1 has not only decided to enter into the lucrative but competitive business of Connected TV and Digital OoH advertising, but it has also been aggressively expanding its content distribution operations. This is expected to accelerate revenue growth at a five-year CAGR of 26% through FY2023E. SW1 is also strategising overseas expansion for its content operations, which is expected to provide additional impetus for revenue growth.

We expect that post-integration of Medical Media, the advertising business will monetise the existing screen network of SW1 and continue its high growth trajectory. An inventory of hyper-local advertisers, the company's existing presence across niche medical practitioner spaces, and service upscaling will result in a higher market share and improved average realisation. Consequently, advertising's contribution to the group's total revenue is expected to reach ~31% by 2020E (Figure 2).

Figure 2: Percentage Revenue Breakdown

Revenue contribution (%)	2017	2018	2019E	2020E	2021E	2022E	2023E
Content & Network	100.0%	100.0%	87.1%	69.4%	68.6%	68.5%	68.7%
Advertising	0.0%	0.0%	12.9%	30.6%	31.4%	31.5%	31.3%

Source: Pitt Street Research

Strong long-term growth in SW1's traditional business

We expect revenue from core content and network operations to grow at ~17% CAGR and reach A$48m by FY2023E (vs. A$22.3m in FY2018), aided by multiple drivers:

– Growth in the average number of new screens through aggressive distribution expansion, new contracts and entry into new sub-segments (for example military camps).

– As SW1 moves towards upscaling its integrated solutions, combining content and network solutions, its market share will expand. Managing a c90% retention rate and having grown to c70% market share in the resources industry, provides it with the required execution skillset to achieve further consolidation in other sub-sectors (hospitality, aged-care and retirement homes).

– Overseas expansion into countries that have significant demand for premium content. The expansion into the developing countries of Asia-Pacific, where content consumption is increasing, will provide SW1 with an opportunity to monetise its assets by simply offering its global content.

Considering that the average revenue from basic packages is constant due to the many options at the disposal of the client, the consistent upscaling of services is expected to support average revenue per screen growth. As screen space becomes competitive and global OTT players move in aggressively, it will not be easy for SW1 to just survive on the back of new contracts from similar industries. Value addition to the service package and charging significant premiums for its integrated solutions will be necessary (Figure 3).

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Figure 3: Content & Network revenue model assumptions

Revenue Model (AUD '000, Year end June)	2017	2018	2019E	2020E	2021E	2022E	2023E
Revenue	17,005	22,280	26,405	31,197	37,202	43,378	48,279
YoY growth		*31.0%*	*18.5%*	*18.1%*	*19.3%*	*16.6%*	*11.3%*
No of Screens/ Subscribers	33,696	62,000	73,347	81,753	91,972	101,169	106,227
% Total Screens		*84.0%*	*18.3%*	*15.0%*	*12.5%*	*10.0%*	*5.0%*
Avg. revenue per screen (AUD)	504.7	359.4	360	382	404	429	454
		-28.8%	0.2%	6.0%	6.0%	6.0%	6.0%

Source: Pitt Street Research

Advertising to grow through Medical Media acquisition

Medical Media's existing business has undertaken massive screen presence expansion in the last few years. We believe that under SW1, the expansion will be more rationalised, based on necessity, and aligned with inventory growth.

SW1 will take all the necessary steps to utilise the existing inventory of advertisers over its existing screens (from both its core operations and Medical Media's inherited screens). Medical Media was also aspiring to concentrate on inventory consumption acceleration before announcement of the deal.

SW1 expects to derive A$3M in synergies following integration of Medical Media

We expect the advertising business growth to remain steady as the new management extracts an anticipated A$3M in synergies within distinct but complementary businesses. While the average revenue per screen is expected to continue to grow, primarily due to integrated services (content, advertising, and network), the expansion in number of available screens will rationalise. This is expected to support the advertising business revenue to grow at a three-year CAGR of 17% from 2020 and reach A$22m in FY2023E vs. A$13.8m in FY2020E (Figure 4).

Figure 4: Revenue model and assumptions for advertising business

Revenue Model (AUD '000, Year end June)	2017	2018	2019E	2020E	2021E	2022E	2023E
Revenue	5,200	7,400	10,406	13,756	17,023	19,946	21,991
YoY growth		*42.3%*	*40.6%*	*32.2%*	*23.8%*	*17.2%*	*10.3%*
Consolidated with Swift	NA	NA	3,902	13,756	17,023	19,946	21,991
No of Screens/ Subscribers	1,500	1,750	1,969	2,215	2,436	2,619	2,750
% Total Screens	*500.0%*	*16.7%*	*12.5%*	*12.5%*	*10.0%*	*7.5%*	*5.0%*
Avg. revenue per screen (AUD)	3,467	4,229	5,286	6,211	6,987	7,616	7,997
YoY growth	112.7%	22.0%	25.0%	17.5%	12.5%	9.0%	5.0%

Source: Pitt Street Research

A$3M in synergies to drive margin expansion

Medical Media's advertising business is a high gross margin operation, i.e. c10-20 percentage points higher than SW1's existing business. As the two businesses leverage each other's network and inventory, the group's gross margin is expected to grow significantly. The biggest advantage for SW1 is the combination of recurring business and integration of very high margin new business. Furthermore, when the anticipated A$3M in synergies seep into the system, the average margin will expand significantly — from ~32% in FY2017 to >59% in FY2023E.

While the revenue growth directly depends on the aggressive screen expansion, ad inventory expansion, and average revenue from upscaling of services, the cost curtailment will depend on synergies and cost rationalisation after restructuring of operations (Figure 5).

Figure 5: Growth and profitability

Growth and Margins (%)	2017	2018	2019E	2020E	2021E	2022E	2023E
Revenue Growth YoY	NA	31.0%	36.0%	48.3%	20.6%	16.8%	11.0%
Gross Margin	31.7%	41.6%	48.2%	54.1%	55.8%	57.3%	59.4%
EBITDA Margin	5.9%	12.1%	14.7%	22.3%	26.3%	29.7%	32.9%
EBIT Margin	-0.7%	0.5%	3.4%	14.0%	19.6%	24.2%	27.9%
Adj. Net Profit Margin	5.2%	-0.6%	3.1%	9.8%	14.0%	17.6%	20.5%

Source: Pitt Street Research

Cash-rich balance sheet to further support inorganic growth

SW1 has a cash-rich balance sheet that it will use for further bolt-on acquisitions.

Management has been leveraging its cash-rich balance sheet for scaling up of its service portfolio by enhancing technology or adding new service streams. We believe that the recurring nature of the business provides SW1 with the additional advantage of having enough resources to carry out further bolt-on acquistions. In FY2018, SW1 had operating cash flow of A$2.6m. After the completion of the Medical Media acquistion deal, we believe the company will be generating an operating cash flow of A$7.5m in FY2020E. The average Free Cash Flow (FCF) generated is expected to be >70% of operating cash from FY2021 onwards.

The abundant availability of cash and consistent cash generation through the recurring revenue operations are expected to help SW1 expand its screen network further. As SW1 executes better synergies among businesses, and monetises assets across operations, RoE and RoA are expected to expand consistently. The average RoA for FY2017–18 was c.3% and is expected to jump significantly going forward, reaching c.23% by FY2023E (Figure 6).

Figure 6: Balance sheet strength and return ratios

Balance Sheet Ratios (%)	2017	2018	2019E	2020E	2021E	2022E	2023E
Net Cash to EBITDA	222.5%	100.9%	64.6%	42.9%	63.9%	88.5%	119.6%
Net Cash to Equity	36.4%	40.7%	14.3%	27.4%	40.9%	51.8%	61.6%
RoE	14.5%	-2.0%	7.4%	22.1%	29.3%	31.6%	30.0%
RoA	6.2%	-0.7%	3.2%	11.8%	17.7%	22.0%	23.3%
FCF to Operating Cash Flow	NA	2.9%	NA	53.8%	76.3%	79.4%	82.2%

Source: Pitt Street Research

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Valuation considerably higher than current price

To derive SW1's long-term value, we have used a weighted average valuation methodology, assigning equal weight to a peer-group-based Sum-Of-The-Parts (SOTP) valuation and a DCF calculation.

Considering the distinct nature of SW1's different businesses, a single peer group is ineffective. We have used two divergent peer groups to evaluate the main businesses, i.e. content and network, and OoH advertising.

Figure 7: Peer group valuation

SOTP Valuation	Segment	Sector Average (FY 20E)	Prem/Disc	Multiple	FY 20E EBITDA (AUD '000)	Implied EV (AUD '000)
EV/EBITDA	Content & Network	5.5x	-10.0%	5.0x	5,771	28,625
	Advertising	10.2x	-10.0%	9.2x	4,256	39,012
	Total			**6.7x**	**10,027**	**67,638**

Source: Thomson Reuters, Pitt Street Research

Currently, we have considered only ASX-listed peers for business valuation. SW1 has been benchmarked against the following ASX-listed content distributors and advertising companies: Prime Media Group (ASX:PRT), Crowd Media Holding (ASX:CM8), and Beyond International (ASX:BYI) for the content and network business; and OoH!media Ltd (ASX:OML), and QMS Media Ltd (ASX:QMS) for the advertising business. Some other small ASX-listed companies were not included given the lack of earnings forecast (Figure 7).

Figure 8: Relative Valuation Per Share

Equity Value (A$ '000; except per share data)	
EV / EBITDA Multiple	6.7x
EBITDA 2020E	10,027
Implied EV	**67,638**
Net debt (cash)	(1,554)
M-Cap	**69,191**
Share outstanding	153,957
Implied price (A$)	**0.45**

Source: Pitt Street Research

Considering that SW1 is not a pure-play outdoor advertising company (that trades at a higher valuation) and will need to integrate new business, we believe that SW1 will trade at a slight discount to its peers in the near future. We have applied a c10% discount to the peer average EV/EBITDA multiple of 5.5x (content and network) and 10.2x (advertising) for FY2020E. For SW1, the implied EV is A$67.6m or an equity value of A$0.45 per share (Figure 8).

DCF calculation suggests a substantially higher value

Our DCF model yields a 10.7% WACC for SW1 (risk-free rate of 2.1%, a beta of 1.05, and an equity risk premium of 8.2%). Applying this discount rate to our free cash flow projections through FY2028E and using a terminal growth rate of 2%, SW1 yields a value of A$1.04 per share (Figure 9).

We believe that as the company matures and enhances its operation and cost synergies, there will be room for lower discount rates over the medium-

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term period. Furthermore, as the company initiates the upscaling of services, it will post a higher average rate per screen. This would translate into a further increase in the share price.

Figure 9: DCF using various WACCs

Sensitivity Analysis									
WACC	10.7%								
Terminal Growth Rate	2.00%	Change in WACC							
Implied Price (AUD cents)	1.04	8.0%	9.0%	10.0%	10.7%	11.0%	12.0%	13.0%	14.0%
Change in Terminal Growth Rate	0.50%	1.34	1.17	1.04	0.96	0.93	0.84	0.76	0.70
	1.50%	1.47	1.26	1.10	1.01	0.98	0.88	0.79	0.72
	2.00%	1.55	1.31	1.14	**1.04**	1.01	0.90	0.81	0.74
	2.50%	1.64	1.38	1.18	1.08	1.04	0.92	0.83	0.75
	3.00%	1.75	1.45	1.23	1.12	1.07	0.95	0.85	0.77
	3.50%	1.89	1.54	1.29	1.17	1.11	0.98	0.87	0.78
	4.00%	2.06	1.64	1.36	1.22	1.16	1.01	0.90	0.80

Source: Pitt Street Research

Fair value of A$0.75–0.84 per share

Our base case value of A$0.75 per share has been derived using a weighted average valuation methodology, which assigns equal weight to our SOTP-based relative valuation and our DCF calculation (Figure 10). Our bull case calculation results in a valuation of A$0.84. Both the cases imply substantial upside from the current share price.

Figure 10: Weighted average valuation: Base and bull case

Methodology	Weights (%)	Share price (A$)
DCF	50.0%	1.04
Relative valuation	50.0%	0.45
Composite Value (A$)		**0.75**
Adjusted Current Price (A$)		0.160
Upside/ Downside (%)		**367.0%**

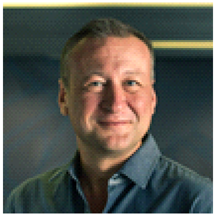
Methodology	Weights (%)	Share Price (A$)
DCF	50.0%	1.18
Relative valuation	50.0%	0.50
Composite Value (A$)		**0.84**
Adjusted Current Price (A$)		0.160
Upside/ Downside (%)		**425.4%**

Source: Pitt Street Research

SWOT Analysis

Strengths & Opportunities	Weaknesses & Threats
- SW1 enjoys a c.30% market share in the resources sector, which forms a substantial source of the revenue for the company. The recent slowdown in the resource sector, in line with a decline in CapEx, weeded out some competition for SW1. - As SW1 holds the commercial rights to market Lumiair B2B, it has an edge over other OTT services in the country, such as Netflix and Stan, which can only be marketed B2C. Consequently, it is able to provide its customers with access to the latest movies much sooner than Netflix and Stan. - As Lumiair is a cloud-based system that is accessible via web browsers and mobile applications, it does not require any hardware installation. This translates to significantly lower deployment time and costs, and consequently provides SW1 the opportunity to quickly expand into new markets by way of licencing. - The introduction of 5G in the Australian market, slated for H1 2019, would drive growth of SVOD services among Australians. Moreover, as the Telstra and Optus networks are set to roll out 5G into Australia, SW1 can leverage its existing relationships to gain access to 5G. - SW1 recently acquired Medical Media, which provides it with market penetration into the highly contested General Practitioners (GP) domain wherein the latter enjoys a market share of c.25%. - The Medical Media acquisition provides SW1 the opportunity to cross-sell its advertising expertise to its existing customers in other industries.	- The substantial growth in the number of rooms serviced by SW1, via both organic expansion and various acquisitions completed in the past few years, has not translated into a concurrent increase in top-line growth. - The advent of Artificial Intelligence in the resources and energy sector in Australia could lead to a decline in need for FIFO workers, translating to a decrease in the requirement for FIFO-specific accommodation for which SW1 caters. - As SVOD services continue to gain traction, especially with the younger demographic, major content creators such as Disney and NBC Universal may choose to distribute their content through their own platforms rather than licensing third-party aggregators such as Netflix and Stan.

Management

	Name and Designation	Profile
	Xavier Kris **Chief Executive Officer & Executive Chairman** (to resign per June 30, 2019)	• Mr. Kris has c.22 years of experience serving as the director of various services-based IT companies headquartered in the UK, the US, Southeast Asia, and Australia. • He specialises in inorganic expansion strategies, with a record of taking companies international by way of mergers, acquisitions and integrations. • He is also a founding partner of Boardroom Capital, a WA-based boutique advisory firm. He holds an MBA, as well as degrees in English Law and French language.
	George Nicholls **Chief Financial Officer**	• Mr. Nicholls has c.20 years of experience as a finance professional. • He has worked in various industries, including technology and communication, primarily based in Australia and the UK. • Mr. Nicholls is a fully qualified member of Chartered Accountants Australia & New Zealand, as well as the Governance Institute of Australia.
	Lee Hunter **Chief Strategy Officer**	• A 10-year veteran of Google where he was the Head of Marketing Strategy and Innovation across Asia Pacific, Mr. Hunter was responsible for delivering innovative marketing and product development. • Prior to joining SW1, he was Interim CEO at Adveritas (ASX:AV1), leading the restructure of the company.
	Alexis Rouch **Chief Operating Officer**	• Alexis Rouch has held senior leadership positions in corporate, public sector and consulting organisations in Australia, Asia, UK and Europe. • Prior to joining Medical Media in August 2017, Alexis held the position of Director of IT & Operations Transformation at AMP.
	Jon White **Chief Revenue Officer**	• Mr. White joined the advertising industry in 1989 and spent fifteen years learning the craft of media strategy planning and buying at Australia's largest ad agencies of the time, George Patterson Advertising and Zenith Media. • Held senior management and executive roles at Mitchell Communication Group (ASX:MCU), Aegis Media Pacific and Country Manager for global mobile ad network InMobi. While there, he grew the AU/NZ business over 400% securing a spot in the top 12 digital media companies in Australia at that time.

Source: Company, Pitt Street Research

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