

# MGM Wireless (MWR.ASX)

## Initiation of coverage: Keeping a watch on our kids

### Key Facts

Company Code	MWR
Closing Price (01/7/19)	\$3.25
Date of Report	02/07/19
Company Website	www.mgmwireless.com
Analyst	Aaron Muller
Associate Analyst	Annabel Li

### Company Statistics

12-Month Range (A\$)	\$5.02-\$1.38
Market Cap (A\$Mil)	A\$43.2m
Issued Shares (Mil)	13.1m
Issued Options (Mil)	\$0.6m
Cash (A\$Mil)	\$2.6m

### Major Shareholders

	%
Mark & Paula Fortunatow	15.6%
Noel Hurd	3.4%
Gleneagle	2.3%

### Share Price Performance



Canaccord Colts provide research coverage on a select group of early-stage ASX-listed microcap companies that our institutional research team believes have strong development trajectories.



If you have received this indirectly, please click [here](#) to receive future research on MWR and other Colt companies.

We initiate coverage on MGM Wireless (MWR.ASX) with a BUY rating and 12 month Target Price of \$5.60 per share. MWR has developed a high quality smartwatch for kids, the Spacetalk, that is an all-in-one phone, watch and GPS tracker. The Spacetalk was successfully launched in Australia in September 2017 and has since sold more than 16,000 units in Australia and New Zealand. With momentum in its early stages and a recent launch in the UK, we expect strong growth in FY20. We also anticipate that MWR can cement itself as a leading player in the emerging kid's smartwatch category.

### Key points

**What is the Spacetalk?** – MWR's core product, the Spacetalk smartwatch, is targeted at children aged 4-12 years old allowing two-way 3G phone calls, SMS messaging to a parent-controlled list of contacts and GPS tracking. Key features of the Spacetalk is its inability to access the internet including social media, an SOS function that dials an emergency contact, an ability to set safe zones and 'school mode' and a 24 hour battery life. Spacetalk is now sold in JB Hi-Fi (~200 stores) and Leading Edge (~120) outlets in Australia and through Spark's retail store network (~73 stores) in New Zealand. The product retails in Australia for ~A\$349 and there is a recurring app fee of approximately A\$5.99 per month, which allows parents to manage the device including putting through software updates.

**Sales gaining momentum** – MWR reported 10,989 unit sales of its Spacewatch device in 1H19 and a further 5,100 in 3Q19. In FY19, we expect AU/NZ sales of 18,500 units, with the signing of a domestic telco in FY20 expected to drive further sales momentum. The success that Spark, the largest telco in NZ, has had with the product, bodes well for an Australian telco to take the product on.

**UK launch** – MWR has also recently launched Spacetalk in the UK via its own website. Management has announced that it is in discussions with a number of traditional retailers. We estimate FY19 sales of ~500 units with ~42,000 units in FY20 as retail distributors and networks are appointed. A successful launch in the UK would pave the way for further expansion into select European countries.

**Strong growth profile** – With the early momentum in Australia likely to continue, together with a UK launch, we expect unit sales to increase 4x in FY20 from 19,000 units to 93,600 units. This would see the company at early stages of profitability after a significant marketing push to support the brand in each of its markets.

**Valuation and recommendation** – We have set a Target Price at \$5.60 per share and initiate with a BUY rating. We have set the Target Price by applying a 14x PER to the blended FY20/FY21 EPS of 40c.

**Catalysts** – We see the near term catalysts as being; (i) distribution agreements with a UK retailer/s; (ii) an agreement for an Australian based telco; (iii) Other new products and/or markets are developed

**Key risks** – The key risks include; (i) Product faults – Any major manufacturing fault could have an impact on the business and brand and result in larger than anticipated product returns; (ii) Competition - While there are competitors in the market, from what we can see, the Spacetalk's key differentiating factor is its safety and security aspects. Fitbit and Garmin are yet to introduce a comparable product, which would potentially impact sales in our view subject to the offering and pricing.

## MGM Wireless Ltd

### Year end 30 June

MGM Wireless Limited is a technology company designing, developing and commercialising smartphone+watch wearables devices for children, and software for school communication and student absence management. The Company's AllMyTribe division has developed a children's all-in-one smartphone, watch and GPS device called SPACETALK.

Profit & Loss (\$m)	2018A	2019F	2020F	2021F
<b>Sales Revenue</b>	<b>2.7</b>	<b>7.2</b>	<b>24.7</b>	<b>49.8</b>
<b>EBITDA</b>	<b>0.7</b>	<b>-0.5</b>	<b>4.1</b>	<b>12.8</b>
Depreciation	0.0	0.0	0.0	0.0
EBITA	0.6	-0.5	4.1	12.8
Amortisation	-1.8	-1.8	-1.8	-1.8
<b>EBIT</b>	<b>-1.1</b>	<b>-2.3</b>	<b>2.3</b>	<b>11.0</b>
Net Interest Expense	0.0	-0.2	-0.2	-0.2
<b>NPBT</b>	<b>-1.2</b>	<b>-2.5</b>	<b>2.1</b>	<b>10.8</b>
Tax expense	0.0	0.0	0.0	-2.4
<b>NPAT (Normalised)</b>	<b>-1.2</b>	<b>-2.5</b>	<b>2.1</b>	<b>8.4</b>
Significant items	0.0	-3.0	0.0	0.0
<b>NPAT (Reported)</b>	<b>-1.1</b>	<b>-5.5</b>	<b>2.1</b>	<b>8.4</b>
Cash Flow (\$m)	2018A	2019F	2020F	2021F
<b>Operating EBITDA</b>	<b>0.7</b>	<b>-0.5</b>	<b>4.1</b>	<b>12.8</b>
- Interest & Tax Paid	0.0	-0.2	-0.2	-0.2
+/- change in Work. Cap.	0.2	-0.3	-3.4	-4.6
- other	0.4	-1.3	-0.1	-0.1
<b>Operating Cashflow</b>	<b>1.3</b>	<b>-2.3</b>	<b>0.4</b>	<b>7.9</b>
- Capex	0.0	0.0	0.0	0.0
- Acquisitions/divestments	-1.7	-2.0	-2.5	-2.5
- other	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>-0.5</b>	<b>-4.3</b>	<b>-2.1</b>	<b>5.4</b>
- Ord Dividends	0.0	0.0	0.0	0.0
- Equity /other	2.0	0.0	2.9	-0.1
<b>Net Cashflow</b>	<b>1.5</b>	<b>-4.3</b>	<b>0.8</b>	<b>5.3</b>
Cash at beginning of period	1.1	2.6	0.3	3.1
+/- borrowings / other	0.0	2.0	2.0	0.0
<b>Cash at end of period</b>	<b>2.6</b>	<b>0.3</b>	<b>3.1</b>	<b>8.4</b>
Balance Sheet	2018A	2019F	2020F	2021F
Cash	2.6	0.3	3.1	8.4
Inventories	0.1	0.7	4.4	10.0
Debtors	0.2	0.8	3.7	7.5
PPE	0.2	0.2	0.4	0.5
Intangibles	2.5	2.7	2.8	2.9
Other assets	0.8	3.8	3.8	3.8
<b>Total Assets</b>	<b>6.6</b>	<b>8.6</b>	<b>18.2</b>	<b>33.1</b>
Borrowings	0.0	2.0	4.0	4.0
Trade Creditors	0.5	1.3	4.6	9.3
Other Liabilities	0.4	2.2	2.2	2.2
<b>Total Liabilities</b>	<b>0.9</b>	<b>5.6</b>	<b>10.9</b>	<b>15.5</b>
<b>NET ASSETS</b>	<b>5.7</b>	<b>3.0</b>	<b>7.4</b>	<b>17.5</b>
Board of Directors / Substantial Shareholders				
Board of Directors	Shares	%		
Mark Fortunatow - Exec Chair	2.0	16.1%		
Leila Henderson - NED	0.0	0.3%		
Glen Butler - NED	0.1	0.4%		
Substantial Shareholders	Shares	%		
Mark and Paula Fortunatow	2.0	16.1%		
Top 20 Shareholders	5.1	39.3%		

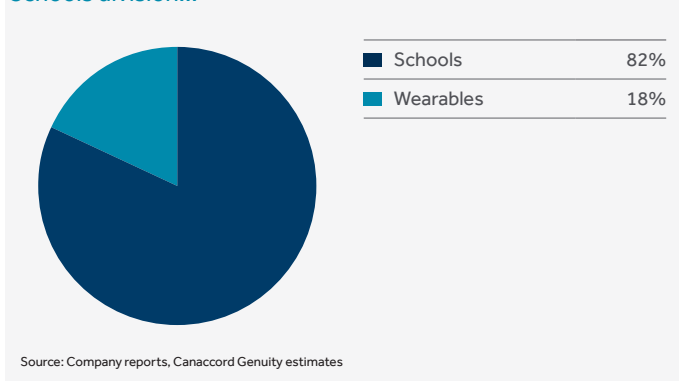
Valuation ratios	2018A	2019F	2020F	2021F
EPS (cps)	-11.2	-20.9	15.8	64.3
P/E (x)	-28.9	-15.5	20.5	5.1
PER Rel - All Ind.	-260%	-194%	28%	-66%
PER Rel - Small Ind.	-276%	-200%	37%	-65%
Enterprise Value (\$m)	36.7	41.0	40.2	34.9
EV / EBITDA (x)	55.0	-78.4	9.9	2.7
EV / EBIT (x)	-32.1	-17.6	17.7	3.2
DPS (cps)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%
CFPS (cps)	12.2	-19.2	3.1	60.4
P / CFPS (x)	26.6	-16.9	106.5	5.4
Profitability ratios	2018A	2019F	2020F	2021F
EBITDA Margin (%)	24.3	-7.3	16.5	25.7
EBIT Margin (%)	-41.6	-32.5	9.2	22.0
ROE (%)	-20.4	-84.4	28.0	48.1
ROA (%)	-29.2	-28.3	15.0	44.5
ROIC (%)	-37.9	-50.1	27.4	107.7
Balance Sheet ratios	2018A	2019F	2020F	2021F
Net Debt (cash)	-2.6	1.7	0.9	-4.4
Net Gearing (%)	-46.8	55.3	cash	cash
Interest Cover (x)	-95.4	-11.7	11.4	61.0
NTA per share (\$)	0.65	0.25	0.56	1.34
Price / NTA (x)	5.0	13.1	5.8	2.4
EFPOWA (m)	10.3	12.1	13.1	13.1
Key assumptions	2018A	2019F	2020F	2021F
Schools revenue (\$m)	2.2	2.2	2.2	2.2
Spacetalk units	1800	19000	93600	206700
Average sales price (\$)	236	261	240	230
Retail distribution (stores)	0.0	275	1600	2550
Sales/store/week	0.0	1.3	1.1	1.6
Interim Analysis	1H19A	2H19F	1H20F	2H20F
Spacetalk unit sales	10989	8011	48000	45600
Revenues	4.1	3.1	13.1	11.6
EBITDA	0.6	-1.1	1.8	2.3
EBITDA margin (%)	14.3%	-35.6%	13.7%	19.7%
Valuation				
Normalised EBITDA multiple (x)				2020/21
EBITDA (\$m)				8.4
Target EBITDA multiple (x)				8.9
Net Debt (cash) (\$m)				1.7
Implied Valuation				73.4
<b>Per Share</b>				<b>5.60</b>
Target PE Multiple				
EPS (c)				40.0
PE Target (x)				14.0
<b>Per Share</b>				<b>5.60</b>

## Company overview

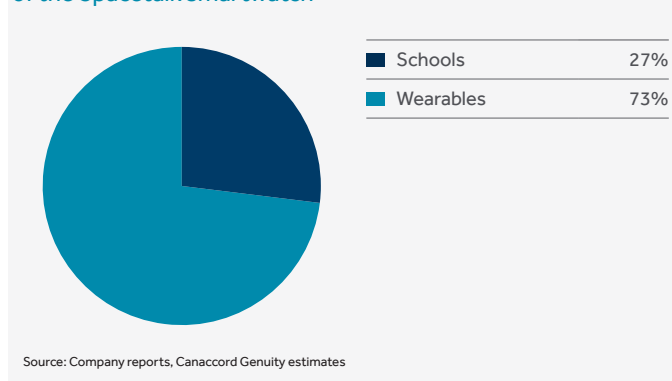
MGM Wireless (MWR) is a provider of school-parent communications solutions through specialist software and wearable smartphone devices. The company was founded in 2002 and has since been developing and commercialising technology with an aim to improve student safety and attendance, reduce school operating costs and increase parent engagement.

MWR has two divisions, **Schools** (school-parent-child), which is its flagship business that provides an attendance management system and parent communication to over 1400 schools in Australia (~24% of the primary and secondary schools). The second division, **Wearables** (parent-child), has launched its first product, the Spacetalk smartwatch. Following a successful launch of the Spacetalk in FY18, Wearables is expected to far outstrip Schools in FY19 and is expected to be the main driver of growth going forward.

**Figure 2: Revenue mix in FY18 was predominantly from the Schools division...**



**Figure 3: ...but this is changing rapidly in FY19 with the success of the Spacetalk smartwatch**



MGM's Schools products include Messageyou, Watchlists, RollMarker, Outreach+ and SchoolStar:

- **Messageyou:** Messageyou was established in 2003 as a specialised SMS messaging service to notify parents if their child was not present at school and inform them of events and news. Messageyou is used by >2,000 Australian schools at present and is now able to analyse student attendance through artificial intelligence (AI) and personalise SMS messages to parents.
- **Watchlists:** This is an analytics and follow-up tool for student absence management. Watchlists was launched in 2004 and uses algorithms and AI to monitor trends and identify at risk students, problem classes or school wide issues before alerting appropriate school staff.
- **Rollmarker:** Launched in 2006, Rollmarker was the first student attendance and welfare management system using cloud-based technology. Rollmarker is a mobile, digital system allowing staff to update and check attendance records from any internet device.
- **Outreach+:** MWR initially released Outreach in 2009 as a web-based platform for schools to send messages from outside school premises. The updated Outreach+ allows multichannel school communication through a single platform and can be synced with existing school databases to find contacts.
- **SchoolStar:** SchoolStar was introduced in 2016 and is a secure mobile app to enable schools to post school news, announcements and personal messages on an integrated system.

After listing on the ASX in 2003, MWR quickly achieved profitability with Messageyou however, was forced to explore new services and products as the cost of sending SMSs declined and free messaging services such as WhatsApp became increasingly widespread. While the Schools division has been relatively successful with >1.7m active parent and student users across >1,400 schools in Australia and New Zealand, growth is relatively limited. The growth opportunity sits with Wearables and in particular, Spacetalk, which has been extremely successful since its launch.

## Spacetalk

All-in-one wearable device - MWR's Wearables core product is its Spacetalk smartwatch (launched October 2017) targeted at children aged 4-12 years old which allows two-way 3G phone calls, SMS messaging to a parent-controlled list of contacts and GPS tracking. A key feature of Spacetalk is its inability to access the internet including social media, apps and various sites that could be harmful to young children.

**Figure 4:** Spacetalk offers a range of functionality in addition to the calling and security features including a step counter, weather and activities/rewards that can be set by parents.



**Figure 5:** The Spacetalk was built, designed and tested over a three year period and has proved to be a high quality device when lined up against competitors.



### The key functionalities of Spacetalk include:

- **3G phone:** Calls can be made and received from an unlimited list of contacts which are pre-approved by parents through the Spacetalk app ('allmytribe').
- **SMS messaging:** SMS messages can also be sent and received from the same list of contacts controlled via the app.
- **Safe zones:** Safe zones can be set up via GPS/location settings in the app where an alert is sent to parents when their child arrives and leaves these places.
- **GPS tracking:** Parents can view their child's location in real time as well as their location history.
- **SOS Alert:** An SOS button can be programmed to automatically call nominated guardians and local emergency authorities when a child holds it down for 5 seconds. The child's location will also be sent from the app.
- **School mode:** Certain features can be switched to silent during classes to prevent classroom distractions.
- **Other features:** 24-hour battery life, step counter, reminder alarms, weather and stopwatch. Parents can also set chores/tasks and rewards via the app.

**Safety features are attractive to parents** - Spacetalk does not connect to the internet and therefore does not expose children to social media, apps and other sites that could be detrimental to young children. MWR developed the device to keep parents and their children connected whilst overcoming the growing issues of online bullying, higher stress levels among younger children and distractions during school, which were key reasons leading to mobile phones being banned in NSW public primary schools from 2019.

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MWR reported 10,989 unit sales of its Spacewatch device in 1H19 and a further 5,100 in 3Q19. In FY19, we expect AU/NZ sales of 20,000 units, with the signing of a domestic telco in FY20 expected drive further sales momentum.

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**Security and privacy is key** – Spacetalk is the first of its kind to be wholly developed in Australia and passes all mandatory Australian safety standards and stringent European privacy laws. All data flow between Spacetalk and its servers is encrypted and stored in Australia which ensures its systems cannot be hacked. This is one of the key competitive advantages of the Spacetalk in our view, with many other competitors coming under criticism for the lack of encryption and safety for users. Most recently, the marketers of competitor smartwatch, the TicTotrack, announced it was temporarily shutting down due to a security flaw. It’s also worth noting that in Europe a number of manufacturers have been banned in some countries for lack of security and / or privacy.

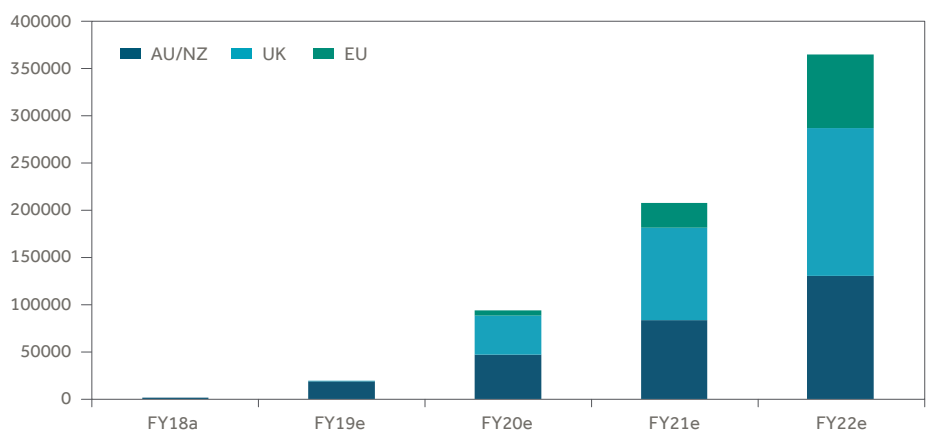
**Retail footprint is growing** – The Spacetalk was launched in October 2017 via the company’s ‘www.allmytribe.com’ (now ‘www.spacetalkwatch.com’) website. Following a period of direct sales, which demonstrated the demand, Spacetalk is now sold in JB Hi-Fi (~200 stores) and Leading Edge (~120) outlets in Australia and through Spark’s retail store network (~73 stores) in New Zealand. MWR has also recently entered the UK market (3x Aust. TAM) this month with a soft launch ahead of an official launch with retailers and distributors, which is a significant opportunity for the group.

**Upfront + monthly App fee** – Spacetalk retails for A\$349 with a monthly, recurring app fee of A\$5.99 (up to 2 devices) or A\$8.99 (up to 5 devices). MWR also sells attachments such as a charger and screen protectors which it expects to be 5-10% of revenue. Spacetalk also requires a SIM card for calls, SMS and data however, MWR does not generate revenue from the telecom SIM plans that users choose to sign up to. We believe the device is placed at the premium end of the children’s smartwatch market due to the quality and safety features it provides.

**Where is Spacetalk made?** – Spacetalk is manufactured / assembled in Shenzhen China and managed by a South Korean specialist manufacturer of technology products. MWR employees inspect each production run in China to ensure quality control. The Spacetalk is landed in Australia for ~\$100/ watch. Based on a wholesale price of \$220-\$250 per watch, gross margins are estimated at ~55-60%. We expect that as volume increases, manufactured costs will fall and gross margins should expand or at least help maintain current margins, should competition enter the market.

**Sales gaining momentum** – MWR reported 10,989 unit sales of its Spacewatch device in 1H19 and a further 5,100 in 3Q19. In FY19, we expect AU/NZ sales of 18,500 units, with the signing of a domestic telco in FY20 expected drive further sales momentum. MWR has also recently announced the launch into the UK. We estimate FY19 sales of ~500 units with growth into FY20 reflecting a full 12 months contribution. Figure 6 below outlines our forecast sales profile

**Figure 6: Spacetalk unit sales profile FY18a-FY22e**



Source: Company Reports, Canaccord Genuity estimates



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Smartwatches contributed to US\$9.3b of the total market and is expected to grow to US\$17.4b in 2021 with children's smartwatches accounting for 30% (~US\$5b) of this category.

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## Market opportunity

**The global market for smartwatches is growing** – According to Gartner research, the global wearables technology market is estimated at US\$30.5b (2017) and includes smartwatches, head-mounted displays, body-worn cameras, bluetooth headsets, wristbands, sports watches and other fitness monitors. Smartwatches contributed to US\$9.3b of the total market and is expected to grow to US\$17.4b in 2021 with children's smartwatches accounting for 30% (~US\$5b) of this category.

**Addressable market in AU/NZ/UK** – We estimate that penetration in children's smartwatches will increase over time to 12.5% in Australia and the UK. This is the approximate smartwatch penetration for adults in the US in 2019. We believe that children's safety and reluctance of parents to provide young children with a smart phone will be the key drivers of penetration increasing. We flesh out some of these drivers below. In Figure 7, we estimate the market opportunity across MWR's existing markets is about 900,000 based on the 12.5% penetration rate assumption. Our estimates in this report are based on a 2021 share of ~20% of 900,000 (~180,000 units).

**Figure 7: We estimate penetration could increase to 12.5% in the 6-11 age bracket**

	Population 6-11	7.5%	10%	12.5%	15%	20%
Australia	~ 1,800,000	135,000	180,000	225,000	270,000	360,000
NZ	~ 400,000	30,000	40,000	50,000	60,000	80,000
UK	~ 5,000,000	375,000	500,000	625,000	750,000	1,000,000
		540,000	720,000	900,000	1,080,000	1,440,000

Source: Canaccord Genuity estimates

**We believe growth in children's smartwatches to be driven by the following major global trends:**

- **Technological advancements driving consumer adoption for wearables:** The wearables market is entering a transformational phase driven by improving technology and increasing consumer awareness and adoption of gadgets with basic smart features. In particular, consumers are attracted to the ability of smartwatches to seamlessly integrate day-to-day and health/fitness activities into an app-based module accessible from a device that does more than just timekeeping. Smartwatches currently represent ~30% of total wearables sales (Gartner) and IDC research expects this to accelerate as cellular connectivity becomes a standard offering.
- **Mobile phone bans in primary schools:** Social issues such as online bullying and a lack of focus in classrooms due to increased smartphone usage has resulted in it being banned across NSW public primary schools and all French state middle schools. We expect similar laws and regulations to become more common both domestically and internationally, driving demand for a device that enables parents to stay connected with their children without distractions. This should benefit MWR. A key feature of Spacetalk is its inability to access the internet including social media and various sites that is believed to cause anxiety and stress in young children as well as introducing the risk of predatory behaviour.
- **Safety as a key functionality:** Children's smartwatches have become increasingly widespread amongst parents as a safety solution for their children by enabling parents to stay connected with their children via SMS messaging, calling and GPS tracking. Children are also able to set off an SOS alert, which is beyond what a basic mobile phone is able to do. Children are also less likely to lose a smartwatch (especially compared to a phone) as it is a wearable device allowing parents to accurately follow their child's location in real time.

## Competitive landscape and positioning

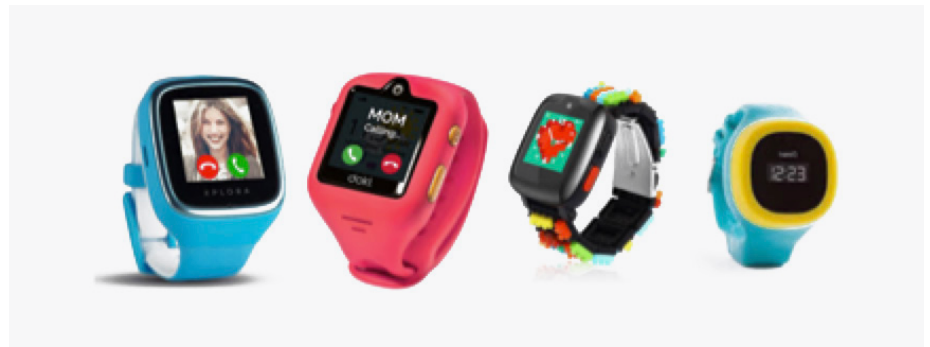
**Competition is there but limited** – Spacetalk competes with a number of other children’s smartwatches that include mobile phone-type features and GPS tracking. Where Spacetalk stands out is in the security and privacy aspects, calls are reliable and clear and the device appears more robust when compared to other devices. Battery life can be an issue with these devices, however Spacetalk’s battery life of 24 hours compares well to other products.

**Major wearables players aren’t quite there yet** – Fitbit and Garmin, the largest players in the wearable devices space have made moves into the junior market via its Garmin Vivofit Jr 2 and Fitbit Ace which focus on helping children achieve their activity goals and therefore, do not have the same value proposition as Spacetalk.

We consider Spacetalk’s key competitors to be the Xplora 3S, DokiWatch S, Omate x Nanoblock and hereO V2 as illustrated below:

- **Xplora 3S:** Norwegian Xplora was one of the first companies to introduce a smartwatch built specifically for child safety. Xplora 3S is Xplora’s latest model that includes SMS messaging, voice calling, GPS tracking, safe zones and camera in a waterproof design. It is currently sold in Europe via the company’s website for £136.
- **DokiWatch S:** Features include GPS tracking and an SOS alarm while 3G, wi-fi, bluetooth and camera enable SMS messages, voice calls and video calls. The watch is available worldwide on Amazon and on the company’s website for US\$179.
- **Omate x Nanoblock:** This smartwatch was released by wearable maker, Omate in collaboration with Japanese toymaker, Diablock. Key functionalities include GPS tracking, SOS alerts, voice and video calls, camera and a three-day battery life. All data is encrypted, offering a high level of security. The device is sold via the company’s website for US\$149 and works across the US and Europe.
- **hereO V2:** HereO V2 allows SMS messages, GPS tracking, SOS features in a small and light device with 48-hour battery life. The watch is offered in the US and across Europe (Italy, Spain, France, Germany) on Amazon and the company’s website for US\$199.

Figure 8: The main competitors have similar functionality to Spacetalk



Source: Google

**Some key differentiators** - Spacetalk is a leading product in the market being a more secure, reliable and advanced device compared to its competitors, many of which are only available online. It also has a first mover advantage in the domestic market as the first of its kind to be completely developed in Australia and has partnered with top-tier distributors (JB Hi-Fi, Leading Edge and Spark NZ) within a short period.

As the category continues to grow, we expect global authorities to be more stringent on poor quality, low security devices. This is likely to create higher barriers to entry and the removal of various smartwatches from the market which should benefit MWR. All data flow between Spacetalk and its servers is encrypted and stored in Australia which ensures its systems cannot be hacked, unlike some products which were found to be transmitting unencrypted location data back to servers based in China. Overall, we believe Spacetalk is placed at the premium end of the children’s smartwatch market due to the quality and safety features it offers.

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Figure 9: Spacetalk has a superior product which supports it selling at the premium end of the market

	Spacetalk	Moochies	TicTocTrack	DokiWatch S	Omate	hereO V2	Xiaomi Mi Bunny 3
SMS	✓	✓	✓	✓	✓	✓	✓
Audio calls	✓	✓	✓	✓	✓	✗	✓
Video calls	✗	✓	✗	✓	✓	✗	✗
GPS tracking	✓	✓	✓	✓	✓	✓	✓
Safe zones	✓	✓	✓	✓	✓	✓	✓
SOS alerts	✓	✓	✓	✓	✓	✓	✓
Uses 3G network	✓ Any	✓ Vodafone	✓ Telstra, Vodafone	✓ Any	✓ Tata	✓ In-built	✓ Any
Wifi connectivity	✗	✗	✓	✗	✓	✓	✓
Camera	✗	✓	✗	✗	✓	✗	✓
Encrypted data	✓	✓	✓	?	✓	✓	?
Privacy/security compliant	✓ AU, EU	✓ AU, EU	✓ AU	?	?	?	?
Data storage	AU, UK	AU, EU	?	?	US	?	?

Source: Company websites

## Growth drivers

**Industry tailwinds:** MWR's growth will be influenced by the growth in the overall wearables market which is entering a transformational phase driven by improving technology and increasing consumer awareness and adoption of devices with basic smart features. Smartwatches have been particularly popular amongst consumers with smartwatches for children emerging as a new category, expected to represent ~30% of category sales by 2021 (~US\$5b). We believe this is a significant opportunity for MWR given Spacetalk's strong position in the market, being recognised by industry experts as a leading smartphone device globally which is safe to use for young children.

**School regulations:** NSW public primary schools and all French state middle schools have recently banned mobile phones following a review which found it contributed to increases in online bullying and a lack of focus in classes. We believe similar regulations to be enforced in the short to medium term, driving demand for Spacetalk as a device enabling child safety and contact with parents without unsupervised internet access.

**Expanding retail and distribution network:** MWR sells Spacetalk via its own website and through a leading retail and distribution network including JB Hi Fi and Leading Edge in Australia and Spark in New Zealand. We note that the partnership with Spark NZ is a significant achievement where the Spacetalk product is supported by a major telecom and has aided MWR's first move into an international market. We believe MWR will continue to expand its distribution channels with top-tier partners which could have a material, positive impact on sales. In particular, an agreement with a major telecom here in Australia would not only increase the retail footprint but would also open up the post paid market.

**Category expansion:** MWR has flagged plans to enter new categories and launch updated versions of its Spacetalk product. Although management have not announced a timeframe, we expect the company to expand into a whole range of family wearables such as waterproof watches, home alarms and pet trackers which will all be integrated into one platform.

**Geographical expansion:** We believe that there is a large-scale opportunity for MWR to promote Spacetalk in larger markets as schools worldwide face the same social issues regarding the use of mobile phones by young children. MWR has recently entered the UK market. It's expected that Spacetalk will launch in several retailers and distributors, in FY20, which is a major opportunity. This should be followed by expansion in selected European countries.



## Financial forecasts

We have made the following assumptions in our model;

- **Retail footprint** – Retail footprint in AU/NZ increases from ~275 in FY19 to ~600 stores in FY20 with the signing of an Australian retailer/telco. In the UK, we assume 800 retail stores. We also assume a launch in Europe in FY20 to 200 stores.
- **Sales/store/week** – We have assumed in AU/NZ, 2 units per store per week in FY20. We estimate FY19 will be 1.3 units but note that JB Hi-fi only began stocking Spacetalk in November 2018. In the UK in FY20, we assume 1 unit per store per week.
- **Average sale price** – We assume an average wholesale price to MWR of \$260 in FY19 and assume this falls to \$240 in FY20 with an increased level of promotional activity by retailers.
- **Schools revenue** – is maintained at current levels of ~\$2.2m revenue.
- **Product manufacturing costs** – We have assumed costs to manufacture of \$100/unit in FY19 but assume this falls to \$84/unit in FY20 as volume increases.
- **Marketing costs** – We are assuming \$2.2m in marketing costs in FY19. While this is ~45% of Spacetalk revenue, the company expects a high level of marketing spend will be required to support the brand. We have shown marketing costs separately in Figure 10 below and assume spend increases in FY20 to \$3.2m.
- **Balance sheet** – MWR's balance sheet is fairly clean with \$2.4m cash as at 31 December and \$0.5m of a drawn convertible note. The company has a \$2.0m convertible note, which has been used for inventory. A further \$0.5m was drawn in 3Q19, A further \$0.5m was drawn in 3Q19 with the balance drawn down in May and June to fund working capital. We have assumed the working capital in FY20 is funded by an equity raise of \$3.0m, which should fund approximately 30,000-35,000 units.

Figure 10: Summary financials FY19-FY20

Financial Summary	2019F	2020F	2021F	2022F
Units sold	19000	93600	206700	364000
Retail Outlets	275	1600	2550	3500
Spacetalk Revenue	4.9	22.5	47.5	83.7
Schools Revenue	2.2	2.2	2.2	2.2
<b>Total Revenue</b>	<b>7.2</b>	<b>24.7</b>	<b>49.8</b>	<b>86.0</b>
COGS	2.0	8.5	16.7	28.5
<b>Gross Profit</b>	<b>5.1</b>	<b>16.2</b>	<b>33.1</b>	<b>57.4</b>
<b>GP margin (%)</b>	<b>71%</b>	<b>66%</b>	<b>66%</b>	<b>67%</b>
<b>Expenses</b>				
Direct Costs	0.7	3.7	6.6	11.4
Other Expenses	1.4	3.7	5.8	7.6
Total expenses	2.1	7.5	12.3	19.0
<b>EBITDA (before group costs)</b>	<b>3.0</b>	<b>8.8</b>	<b>20.8</b>	<b>38.4</b>
Group Corporate / R&D Expenses	1.3	1.5	3.0	3.5
<b>EBITDA (before Marketing &amp; Advertising)</b>	<b>1.7</b>	<b>7.3</b>	<b>17.8</b>	<b>34.9</b>
<b>Spacetalk Marketing &amp; Advertising</b>				
Advertising & Marketing AUSNZ	1.5	1.3	1.5	1.9
Advertising & Marketing UK/EU	0.8	2.0	3.5	3.5
<b>Total</b>	<b>2.2</b>	<b>3.2</b>	<b>5.0</b>	<b>5.4</b>
<b>% Spacetalk Sales</b>	<b>45%</b>	<b>14%</b>	<b>11%</b>	<b>6%</b>
<b>Group EBITDA</b>	<b>(0.5)</b>	<b>4.1</b>	<b>12.8</b>	<b>29.5</b>

Source: Canaccord Genuity estimates

Figure 11: Geographic breakdown FY19-FY22

By Region	2019F	2020F	2021F	2022F
<b>Units sold</b>				
AU/NZ	18,500	46,800	83,200	130,000
UK	500	41,600	97,500	156,000
EU	0	5,200	26,000	78,000
Total	19,000	93,600	206,700	364,000
<b>Revenue</b>				
AU/NZ	7.0	13.5	21.4	32.1
UK	0.1	10.0	22.4	35.9
EU	0.0	1.2	6.0	17.9
Total	7.2	24.7	49.8	86.0
<b>EBITDA</b>				
AU/NZ	0.9	3.3	6.1	11.1
UK	(1.4)	1.8	6.7	13.2
EU	0.0	(1.1)	0.0	5.3
Total	(0.5)	4.1	12.8	29.5
% EBITDA Margin	-7%	17%	26%	34%

Source: Canaccord Genuity estimates

## Management and Board of Directors

**Mark Fortunatow (CEO and Executive Director):** Mark has been a director since 2003 and brings more than 22 years of senior executive management experience in marketing, engineering, information systems, finance and customer support. Mark has previously founded Linx Computer Systems, Timekeeping Australia and Netline Technologies. He holds a Bachelor of Science and Bachelor of Economics from Adelaide University.

**Justin Nelson (Company Secretary):** Justin has extensive experience in the listed company space and was a former ASX SA State Manager and Manager Listing (Adelaide); roles he held until the Adelaide ASX offices were consolidated nationally in March 2012. He was previously a corporate lawyer and is an expert in corporate governance, ASX listing rules and company meeting practice.

**Leila Henderson (Executive Director):** Leila has been a director since 2014 and is a journalist and technology PR & Marketing specialist. Previously, Leila founded media technology business NewsMaker in 2004 and was a co-founder and director of software start-up Ofreddi and a Director of Insurance and Membership Services (IMS).

**Glen Butler (Executive Director):** Glen is an experienced senior executive with a strong focus on sales, finance and manufacturing on an international level. His previous roles include President of Pratt Industries in the US, General Manager of Visy Board in Australia, COO Mariani USA and Managing Director of Mariani Europe. Glen has been a director since 2017.

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