

stock update
RECOMMENDATION: SPECULATIVE BUY

 Stock Code: FAC
 Last Sale: \$0.095
 Market Cap (fd): \$12.4m
 Risk Level: High

Facilitate Digital Ltd

Symphony software platform validated by big client win

29 Mar 11
EVENT

- On 29-Mar-11, Facilitate Digital Ltd (FAC) signed a global agreement with Mediabrands, for the deployment of its Symphony software platform across Mediabrands' agencies (a major subsidiary of Interpublic Group of Companies Inc NYSE: IPG).

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FINANCIAL HIGHLIGHTS

- The agreement is an important milestone for FAC, validating the firm's product strategy and underpins FAC's profile as a provider of high quality software solutions to the global digital media buying industry.
- It is anticipated that the software roll out might take approximately 18 months to complete. FAC will provide Mediabrands with its Symphony software on a recurring license fee basis. Each new geographic market will also generate implementation fees. Additional revenue growth opportunities can be earned through growth of complimentary adserving volume.
- FAC advised that it is engaged in discussions with Mediabrands regarding the planning of the software deployment. Until these discussions conclude, working capital requirements remain yet to be determined.
- Mediabrands employs over 6,000 communications specialists across 90 countries and manages over \$30bn in global media billings. Mediabrands uses SAP software as its group accounting platform and various other localised digital media software tools across its various jurisdictions.

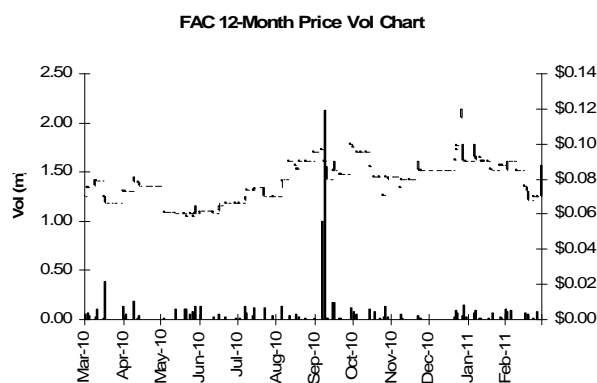
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SELECT EQUITIES RECOMMENDATION

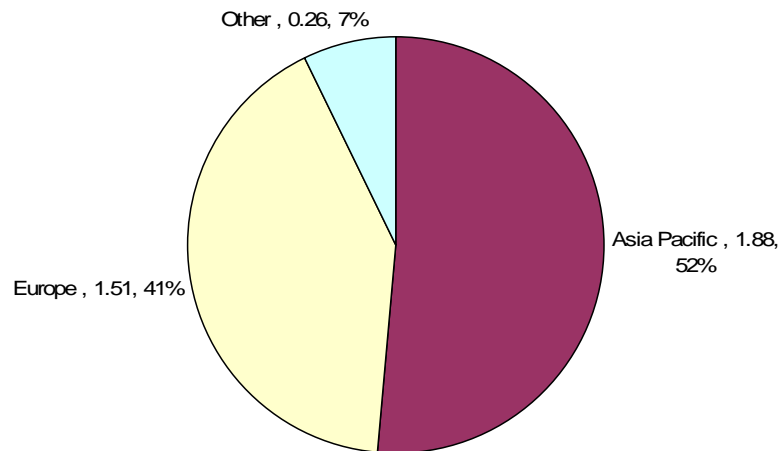
- Select Equities is of the view that this big client win lends substantial credibility to the Symphony software platform and it might therefore be a positive catalyst for other symphony contract negotiations.
- FAC announced that "the agreement will result in a material benefit to earnings in FY12e and beyond". Select Equities has upgraded its FY12e NPAT forecasts by +\$0.7m with additional earnings anticipated in future periods as the contract is fully deployed. We now estimate FY12e EPS of 1.1c (+120%)
- If we assume a conservative PER multiple of 11x and apply this multiple to the FY12e EPS, we obtain a price target of 12.1¢ (+27%).
- Working capital is thin at <\$1m. A capital raising to fund growth is a possibility. Potential delays in the deployment of the contracts are a risk, but given the material nature of this agreement, Select Equities has upgraded its FY12e forecasts and upgrades its recommendation to SPECULATIVE BUY.

June Year End	FY10A	1H11A	FY11E	FY12E
NPAT (pre-abs. & OEI)	0.0	-0.3	0.2	1.5
Op EBITDA (\$m)	1.6	0.7	2.1	4.2
Op EBIT (\$m)	-0.1	-0.2	0.1	1.9
EPS (¢)	0.0	0.0	0.2	1.1
DPS (¢)	0.0	0.0	0.0	0.0
PER (x)	965.1	55.3	55.3	8.3
PER Rel All Ords (%)	6749%	387%	387%	58%
Ent. Value/EBITDA (x)	7.1	5.3	5.3	2.7
Ent. Value/EBIT (x)	-77.5	85.6	85.6	6.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
Diluted Shares (m)				167.6
Avg. Mthly Volume (m)				0.6
Diluted Mkt Cap (\$m)				12.4
Net Cash (\$m)				1.0
Enterprise Value (\$m)				11.4

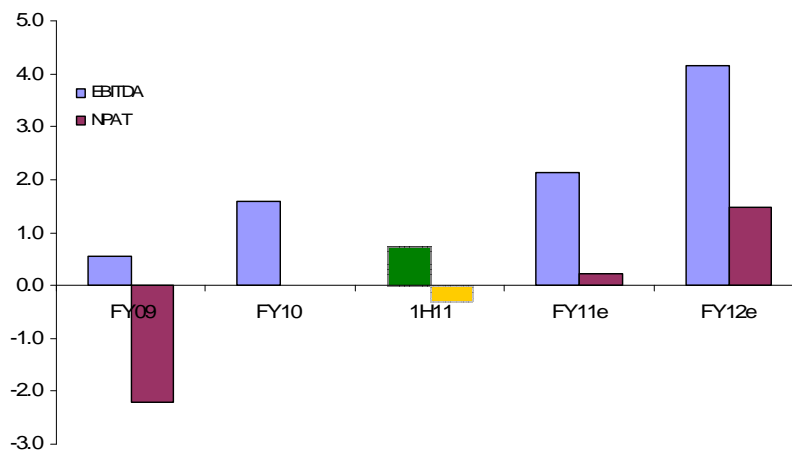
Source: Select Equities Research and Company Reports



Source: IRESS

**REVENUE MIX
BY REGION**
FAC Revenue Mix 1H11


Source: Company Reports

**SELECT
EQUITIES
FORECASTS**
FAC EBITDA and NPAT FY09 to FY12e


Source: Company Reports and Select Equities Research

**BUSINESS
DESCRIPTION**

- FAC specialises in the development and distribution of digital media campaign management and implementation software. The software is intended to simplify and help manage the highly complex process of digital media buying and campaign execution.
- Established in 1999, FAC is based in Sydney with international offices in Asia, the US and Europe. Since inception, FAC has constructed two key products Symphony and Facilitate for Agencies (FFA), with the first version of Symphony, making its debut in 2005.
- The company markets its product suite primarily to media agencies and creative agencies around the world. In FY10 FAC generated revenue of \$7.4m, with approximately 50% generated in Australia. The proportion of international revenue has been rising over the last two years as FAC increased its focus on European and US markets.

- RISK FACTORS**
- Competition – While the current market seems to offer a potential greenfields opportunity, the company faces the risk that a competitor or major software provider commercialises software more quickly than FAC.
 - Execution risk – Rolling out with major global agencies may prove problematic, particularly if several contracts are being implemented at once. Further issues might arise following implementation, should FAC be unable to fulfil its service level agreements.
 - Cash flow and capital raisings – the business has yet to generate a positive free cash flow, as such it is a net cash consumer. Should it be unable to start generating positive cash flow over the next 6 months, an additional capital raising may be required.
 - Technology risk
 - FAC cost base is largely based in Australia, while its strategy is focussed on international markets. This exposes the company to FX risk.
 - Dilution risk – because the board is largely controlled by insiders, option based remuneration could lead to dilution of shareholders. A majority of the 37m FAC options on issue have a strike price of \$0.21.

Facilitate Digital Holdings Ltd

Select Equities Research

Small Caps

Code	FAC				June Year End	FY10A	1H11A	FY11E	FY12E				
Last sale (\$)	(29-Mar-11)				\$0.095								
# Shares (m)					130.5								
# Options					37.1								
Mkt Cap (\$m)					12.4								
Cash					1.1								
Net Cash					1.0								
Enterprise Value					11.4								
June Year End	FY10A	1H11A	FY11E	FY12E	Financial Position (\$m)								
Financial Performance (\$m)					Cash	1.4	1.1	1.4	2.9				
Sales	7.4	4.0	8.6	11.8	Trade Debtors	1.7	1.8	2.1	2.8				
Other revenue	0.1	0.0	0.1	0.1	Other Current Assets	0.0	0.1	0.0	0.0				
Total revenue	7.5	4.0	8.8	12.1	Prop.,Plant&Equip. (net)	0.2	0.2	0.1	0.2				
Gross Profit	6.4	3.3	7.3	10.2	Deferred Tax Assets	0.0	0.0	0.0	0.0				
Op EBITDA	1.6	0.7	2.1	4.2	Investments	0.0	0.0	0.0	0.0				
D & A	-1.7	-0.9	-2.0	-2.3	Intangibles	3.2	3.2	3.4	3.5				
Op EBIT	-0.1	-0.2	0.1	1.9	Other	0.5	0.4	0.5	0.5				
PBT	0.0	-0.2	0.3	2.1	Total Assets	7.0	6.8	7.5	9.9				
NPAT (pre-abs. & OEI)	0.0	-0.3	0.2	1.5	Trade Creditors	1.6	1.8	1.8	2.5				
Abnormals	0.0	0.0	0.0	0.0	Current Tax Liabilities	0.0	0.1	0.1	0.1				
NPAT (pre-oei)	0.0	-0.3	0.2	1.5	Debt	0.1	0.1	0.1	0.1				
OEI	0.0	0.0	0.0	0.0	Provisions	0.5	0.5	0.6	0.8				
Reported NPAT	0.0	-0.3	0.2	1.5	Trade & Other Payables	0.0	0.0	0.0	0.0				
EPS(¢)	0.0	0.0	0.2	1.1	Other Non-Current	0.0	0.0	0.0	0.0				
DPS (¢)	0.0	0.0	0.0	0.0	Total Liabilities	2.3	2.4	2.5	3.4				
NTA (¢)	1.1	0.9	1.2	2.3	Net Assets	4.7	4.3	4.9	6.4				
Book Value / Share (¢)	3.6	3.3	3.8	4.9	Issued Capital	14.0	14.0	14.0	14.0				
Valuation/Performance Ratios					FX Reserve	-0.2	-0.3	-0.2	-0.2				
PER (x)	965.1	55.3	55.3	8.3	Reserves	0.3	0.3	0.3	0.3				
Ent. Value/ Op EBITDA (x)	7.1	5.3	5.3	2.7	Retained Earnings	-9.4	-9.7	-9.2	-7.7				
Ent. Value/Op EBIT (x)	-77.5	85.6	85.6	6.0	Total Equity	4.9	4.3	5.1	6.6				
Sales Revenue Gwth (%)	16.4%	8.6%	17.1%	37.1%	Cash Flows (\$m)								
Gross Profit Gwth (%)	23.2%	11.2%	13.6%	39.0%	Net Receipts	1.3	0.7	2.1	4.4				
Op EBITDA Gwth (%)	186.1%	31.5%	33.4%	95.0%	Net Interest	0.0	0.0	0.1	0.1				
Rec NPAT Growth	100.6%	-104.6%	1646.1%	563.5%	Tax Paid	-0.1	0.0	-0.1	-0.6				
EPS Growth	100.5%	120.0%	1646.1%	563.5%	Development Spend	-1.9	-0.9	-2.0	-2.2				
P/NTA (x)	8.3	10.9	7.8	4.2	Operating Cash Flow	-0.6	-0.2	0.1	1.7				
P/BV	2.6	2.9	2.5	1.9	Capex & Acquisitions	-0.1	0.0	-0.1	-0.2				
Yield (%)	0.0%	0.0%	0.0%	0.0%	Asset Sales & Divest	0.0	0.0	0.0	0.0				
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	Investing Cash Flow	-0.1	0.0	-0.1	-0.2				
Franking	0.0%	0.0%	0.0%	0.0%	Change in Equity (net)	0.8	0.0	0.0	0.0				
Gross Profit/Revenue (%)	87.2%	84.4%	85.0%	86.0%	Change in Debt (net)	0.0	0.0	0.0	0.0				
EBITDA/Revenue	21.6%	18.7%	24.8%	35.2%	Dividends	0.0	0.0	0.0	0.0				
EBIT/Revenue	-2.0%	-5.0%	1.5%	16.0%	Financing Cash Flow	0.8	0.0	0.0	0.0				
NPAT/Revenue	0.2%	-7.3%	2.6%	12.6%	Net Inc/Dec Cash	0.1	-0.3	0.0	1.5				
Current Ratio (x)	1.5	1.5	1.5	1.7	Cash at Beginning of Yr	1.4	1.4	1.4	1.4				
Interest Cover (x)	-3.7	-2.5	-2.5	-14.6	Cash at End of Year	1.4	1.1	1.4	2.9				
Net Debt/Equity (%)	-28.3%	-28.0%	-28.0%	-44.5%	Substantial Shareholders (16 Sep 2009)								
ROE (%)	0.3%	4.6%	4.6%	26.2%				No. (m)	%				
ROA (%)	-0.8%	3.1%	3.1%	22.9%	Ian Lowe and Ben Dixon			13.9	11.5%				
Interim Results (\$m)					2H09	1H10	2H10	1H11	Eye Wonder Inc	12.9	10.7%		
Sales	3.7	3.6	3.7	4.0	Op EBITDA	0.8	0.6	1.0	0.7	Tarbate Pty Ltd	8.7	7.2%	
Op EBITDA	0.8	0.6	1.0	0.7	D & A	-0.8	-0.8	-1.0	-0.9	Dunsmore Nominees Pty Ltd	7.9	6.5%	
D & A	-0.8	-0.8	-1.0	-0.9	Op EBIT	0.0	-0.2	0.1	-0.2	Michael Lane	7.5	6.2%	
Op EBIT	0.0	-0.2	0.1	-0.2	PBT	0.1	-0.2	0.1	-0.2				
PBT	0.1	-0.2	0.1	-0.2	NPAT (pre-abs. & OEI)	-0.1	-0.1	0.1	-0.3				
NPAT (pre-abs. & OEI)	-0.1	-0.1	0.1	-0.3	Abnormals	0.0	0.0	0.0	0.0				
Abnormals	0.0	0.0	0.0	0.0	NPAT (pre-oei)	-0.1	-0.1	0.1	-0.3				
NPAT (pre-oei)	-0.1	-0.1	0.1	-0.3	OEI	0.0	0.0	0.0	0.0				
OEI	0.0	0.0	0.0	0.0	Reported NPAT	-0.1	-0.1	0.1	-0.3				
Reported NPAT	-0.1	-0.1	0.1	-0.3									

Source: Company Reports and Select Equities Research

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