ORD MINNETT RESEARCH

Atomos Limited

Fast forward to higher margins

Atomos' supply chain, from its R&D, manufacturers, wholesalers to end-consumers, has been highly impacted by COVID-19 restrictions. It has materially limited the company's ability to refine, launch, market and sell new and existing products. Importantly, these impacts are temporary. Coming out of this crisis, filmed content production will re-accelerate and sales will rapidly bounce back. Pleasingly, the company has reduced its permanent cost base by 30%, and enacted a further 30% in temporary savings. This provides for higher long-term EBITDA margins than previously forecast and more aggressive operating leverage. With a recovery on the horizon, new products in development to take advantage of streaming content production and a long-term thematic intact, we retain a Speculative Buy and lower our price target from $1.50 to $1.15 per share.

COVID-19 infects the entire supply chain

AMS flagged at the 1H20 result that COVID-19 caused production and product development delays due to scale-down of Chinese facilities. In time, the virus also saw border closures and postponement/cancellation of trade shows, seeing key marketing and selling opportunities lost. Less video production activity during lockdowns saw the monthly sales rate reduce ~60% vs 1H20, but importantly this has been matched by a 60% reduction in opex (half of which is a permanent reduction). This permanent cost-out leads to much better EBITDA margins. Having previously forecast an 11% EBITDA margin on $106m of revenue in FY22, we now expect a 12% margin on $70m in sales, highlighting the permanent change to operating leverage precipitated by this crisis.

Uncertainty on timing, but not opportunity

We remain positive on Atomos' market positioning and structural growth in entertainment and social markets where the business is not as well penetrated. While COVID-19 has delayed products and sales into these markets near-term, we still see a significant opportunity at hand. Acceleration of streaming product development could offer a short-term sales plug as demand here grows.

Retain Spec. Buy due to short-term earnings uncertainty

Spec Buy retained and our target price is now $1.15 per share.

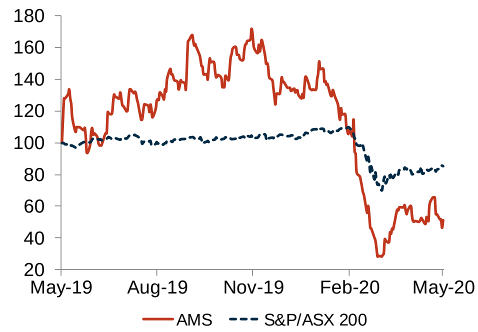
Key Financials					
Year-end July ($)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue ($m)	35.6	53.7	45.9	41.6	70.3
EBITDA ($m)	0.2	1.6	(5.9)	(2.2)	8.5
EBIT ($m)	(0.1)	0.2	(9.4)	(7.2)	3.3
Reported NPAT ($m)	(15.6)	(2.0)	(8.2)	(5.3)	2.1
Reported EPS (c)	(9.6)	(1.2)	(4.0)	(2.4)	0.9
Normalised NPAT ($m)	(1.9)	(0.7)	(6.9)	(5.3)	2.1
Normalised EPS (c)	(1.2)	(0.4)	(3.3)	(2.4)	0.9
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	-	-	-	-	11.3
Normalised P/E (x)	-	-	-	-	57.2
Normalised ROE (%)	-	-	-	-	3.2

Source: OML, Iress, Atomos Limited

Last Price
A$0.54
Target Price
A$1.15 *(Previously A$1.50)*
Recommendation
Speculative Buy
Risk
Higher

Computer Hardware	
ASX Code	AMS
52 Week Range ($)	0.30 - 1.80
Market Cap ($m)	114.1
Shares Outstanding (m)	213.2
Av Daily Turnover ($m)	
3 Month Total Return (%)	-53.1
12 Month Total Return (%)	-48.9
Benchmark 12 Month Return (%)	-14.6
NTA FY20E (¢ per share)	14.3
Net Cash FY20E ($m)	16.4

Relative Price Performance



Source: FactSet

Consensus Earnings	FY20E	FY21E
NPAT (C) ($m)	(5.3)	(6.6)
NPAT (OM) ($m)	(6.9)	(5.3)
EPS (C) (c)	(3.1)	(2.0)
EPS (OM) (c)	(3.3)	(2.4)

Source: OML, Iress, Atomos Limited

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Forecast changes

- Continued COVID impact on sales out to 2H21, at which point we assume a resumption in growth
- Lower gross margin in the short-term on anticipated discounting to stimulate demand
- Reduced opex aggressively in line with management commentary, with permanent savings driving improved long-term EBITDA margins
- Dilution and cash from a $12m capital raise at 45c per share (assuming $2m share purchase plan)

Figure 1 – Forecast changes

	FY20 old	FY20 new	%Δ	FY21 old	FY21 new	%Δ	FY22 old	FY22 new	%Δ
Social	5.6	3.9	*-30.8%*	12.3	4.6	*-62.4%*	16.6	9.2	*-44.3%*
Pro Video	47.2	34.9	*-26.1%*	56.6	30.0	*-46.9%*	66.5	48.0	*-27.8%*
Entertainment	14.1	7.1	*-50.0%*	17.6	5.9	*-66.4%*	21.2	11.9	*-44.0%*
Other/Timecode	0.1	0.1	*-16.7%*	1.5	1.0	*-34.7%*	1.8	1.2	*-34.7%*
Sales revenue	**67.0**	**45.9**	***-31.5%***	**88.0**	**41.6**	***-52.8%***	**106.0**	**70.3**	***-33.7%***
COGS	-37.5	-27.8	*-25.7%*	-49.3	-24.4	*-50.5%*	-59.4	-39.5	*-33.5%*
Gross profit	**29.5**	**18.0**	***-38.8%***	**38.8**	**17.2**	***-55.7%***	**46.7**	**30.8**	***-34.0%***
Other revenue	0.0	0.0	*na*	0.0	0.0	*na*	0.0	0.0	*na*
Total expenses	-26.9	-23.9	*-11.0%*	-30.6	-19.4	*-36.6%*	-34.5	-22.3	*-35.5%*
EBITDA	**2.6**	**-5.9**	*-327.6%*	**8.1**	**-2.2**	*-127.4%*	**12.1**	**8.5**	*-29.6%*
D&A	-3.5	-3.5	*0.0%*	-5.0	-5.0	*0.0%*	-5.2	-5.2	*0.0%*
EBIT	**-0.9**	**-9.4**	*938.0%*	**3.1**	**-7.2**	*-329.8%*	**6.9**	**3.3**	*-51.9%*
Net interest	0.0	-0.4	*-1129.4%*	0.1	-0.3	*-634.2%*	0.1	-0.3	*-576.6%*
PBT	**-0.9**	**-9.8**	*1031.9%*	**3.2**	**-7.6**	*-336.0%*	**7.0**	**3.0**	*-57.3%*
Tax	0.3	2.9	*1031.9%*	-1.0	2.3	*-336.0%*	-2.1	-0.9	*-57.3%*
Normalised NPAT	**-0.6**	**-6.9**	***1031.9%***	**2.2**	**-5.3**	***-336.0%***	**4.9**	**2.1**	***-57.3%***
Normalised EPS	-0.3	-3.3	*934.4%*	1.1	-2.4	*-307.8%*	2.5	0.9	*-62.4%*
GP margin	44.0%	39.3%	-4.7%pts	44.0%	41.3%	-2.7%pts	44.0%	43.8%	-0.2%pts
EBITDA margin	3.9%	-12.9%	-16.7%pts	9.3%	-5.4%	-14.6%pts	11.4%	12.1%	0.7%pts

Source OML

Valuation & Recommendation

We retain a Spec Buy on AMS as we struggle with near terms earnings visibility, but appreciate the long-term opportunity at hand given AMS' strong product offering, market growth and ongoing R&D. Our DCF-derived price target is now 99c.

Figure 2 – DCF valuation overview

DCF inputs	
Beta	1.20
Risk free rate	5.0%
Market risk premium	6.0%
Cost of equity	12.2%
Debt premium	4.0%
Cost of debt (after tax)	6.3%
D/E	20.0%
WACC	**11.0%**
Terminal growth rate	**3.0%**

DCF outputs	
Forecast cash flows ($m)	30
Terminal value ($m)	180
Franking value	3
Enterprise value ($m)	**213**
Add net cash (FY20e) ($m)	-16
Equity value ($m)	**230**
Implied equity value (p.s.)	1.03
Rolled fwd at Ke	12%
Price target	**1.15**
Implied CAGR (FY22-27)	
Revenue	23.9%
EBITDA	42.0%
NPAT	70.4%
Implied FY23 PE	46.4
Implied FY24 PE	26.7

Source: OML

About Atomos

About Atomos Limited

Atomos Limited (AMS.ASX) designs and manufactures monitor-recorders, which can be added to existing video equipment to enhance standard definition camera into high-resolution systems. The monitors can be added to phones, tablets or professional video recorders, allowing for a simpler interface for editing and distributing content.

AMS' main product proposition is to converge computer and video technologies, by combining high-quality recording, monitoring and editing functionality into a low-cost, add-on device for cameras. The portable (in-field) monitor transfers raw images captured by the camera into a proprietary hard drive, which through increased data rates, enhances the quality of the video. The improved user interface of the device allows for more flexible editing and content distribution on the go.

Key Benefits

- Enhanced video quality by connecting directly to a variety of camera sensors. Improves colour and brightness of low-quality images at an affordable price.
- In field monitors introduce slow motion frame rates to standard cameras and elevates 4K definition to high resolution.
- Jointly developed technologies with large camera manufacturers (e.g. Sony) and post production software providers (e.g. Apple). This creates a fully integrated vertical in the market, achieving a seamless workflow from capture, through recording and into post production.
- Increases recording time from minutes to hours using new SSD 2TB hard drive and compressed data capability from codecs such as Apple's ProRes RAW.

Product Mix

Approximately 87% of revenue from monitor recorders. The lower end of AMS product range, including the smaller "Shinobi" and "Ninja V" monitors, target social media content creators. The number of content creators have increased 23% yoy since 2012 (prospectus). Content on these platforms is distributed through free, ad-click driven platforms like Facebook, Instagram and YouTube.

Currently Atomos' predominantly targets the professional camera and video equipment market. The end uses of this segment include promotion, events and corporate video, as well as educational content. In 2018, 81% of US companies used video promotion or training with US$135B spend in total.

AMS has recently launched its "Neon" range of cinema monitor-recorders targeted at the high-end entertainment industry, an identified growth market. Targeting news/entertainment platforms like Fox, Netflix and Amazon, the Neon range has nearly doubled AMS' product portfolio.

Background

Founded in 2010 and headquartered in Melbourne, the company has grown internationally with eight offices located in five countries, each servicing a key part of the global market. The company's global sales operations are conducted via the German office in Frankfurt. CEO Jeromy Young has over 20 years of tech management experience, holding previous roles as Business Development Manager at Canopus Japan and Blackmagic Design Pty Ltd. The company has significant IP embedded in their proprietary processes, developed in-house by a team of over 30 engineers.

Key Drivers

Key Driver 1 – Growth of Social Video Market

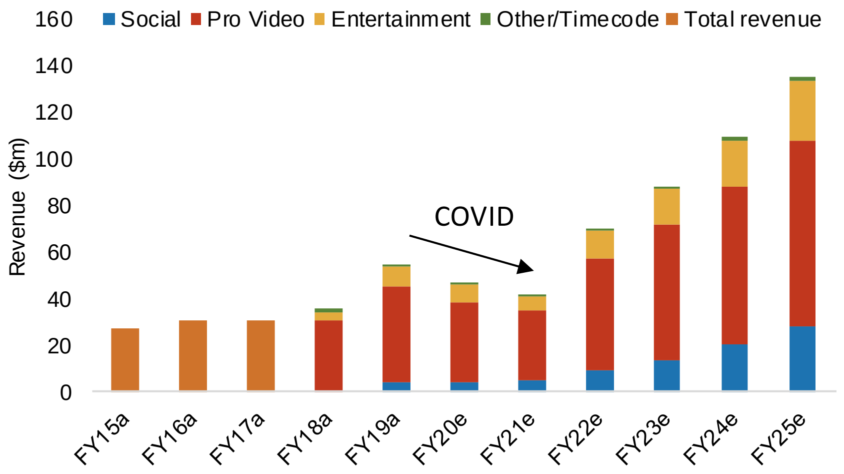
AMS has experienced significant growth in recent years, largely off the back of demand in the social and pro video market segments. The company's focus on capturing market share in the rapidly growing social media market will be accretive, leveraging existing sales channels.

This market, the lower end of Atomos' product range, constitutes social media content creators. The number of content creators have increased 23% yoy since 2012. Content on these platforms is distributed through free, ad-click driven platforms like Facebook, Instagram and YouTube.

While COVID-19 has delayed key product development, reduced filmed content production (and hence demand for AMS products to enhance production), important selling/marketing opportunities at trade shows and disturbed the supply chain, we see long-terms trends remaining intact across each vertical, with:

- **Social** content production rising with social media ad spend
- **Pro video** adoption growing with further product development and thanks to ProResRAW capabilities
- **Filmed entertainment** sales benefitting from the growth in neo-studios (Netflix, Amazon Prime) demand for original content

Figure 3: Revenue Growth by segment



Source: Company Data and OML estimates

AMS has already established several other key advantages it can use to expand in these markets, which includes:

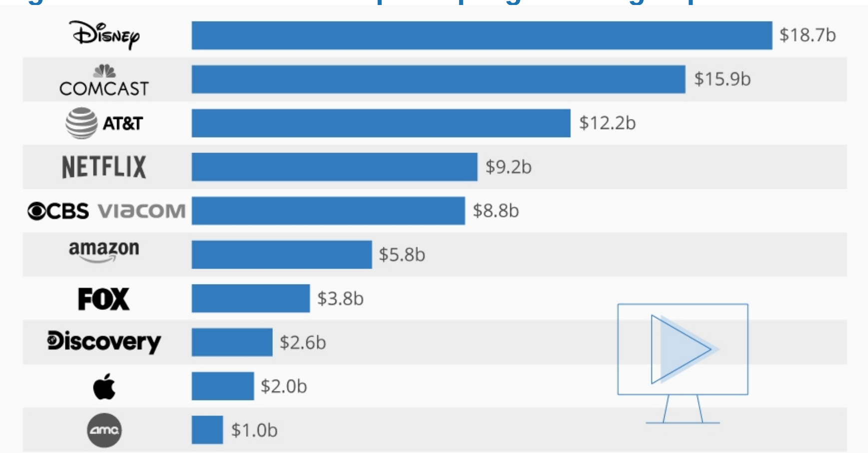
- Using the existing Ninja platform to release upgraded products based on the same core technology (reduced R&D costs).
- Leveraging existing sales channels with distributers that can supply to new and extended markets.
- Developing relationships with new camera manufacturers and other market players to attract new demand (prior partnerships have included Sony, Canon & Nikon).

Key Driver 2 – Cinema Product Launches

The Neon range of products, launched in September 2019, are 4K HDR field monitor-recorders for studio production. This is targeted at the cinema segment of the video production industry, with its need to produce premium, high-quality entertainment content. The product family offers four monitors differentiated by size (17"-55"), with prices ranging from $5,500 to $25,000 per device. While the new product range will cannibalise some of the existing high-end monitors (Sumo range), we believe the Neon family of products will drive strong sales growth.

We anticipate this product offering to be the focal point of growth in the upcoming year and is consistent with the company's strategy to expand into the entertainment and social markets, which is estimated have a TAM 10x greater than the pro video market historically. Video streaming platforms have grown astronomically in the last decade; Netflix revenue has increased from US$1.41B in 1Q14 to US$5.25B during the same period in 2019. Netflix, Amazon and Apple are expected to grow their combined spend for original content from US$5B in 2017 to >US$23B in 2022 (AMS Prospectus). Given these hefty budgets, enhanced quality of content is required to remain competitive within the market.

Figure 4 – Estimated non-sports programming expense 2019



Source: Statista, Moffett Nathanson, Company Reports,
https://www.statista.com/chart/13076/video-content-spending

Beyond growing the top line, we think the introduction of new product lines will affect both the gross margin and operating margin of the business. While a gross margin in the mid-40%s (ex-COVID) is consistent with companies in the consumer durables sector, we anticipate that the pricing structure of the higher-end Neon products will offer improved gross margin dynamics for the business as these products rise in the mix.

While consumers are fairly price sensitive, enterprises with budgets exceeding $1m are often less focused on price and more focused on technology offering. As sales grow, we also anticipate better rates with the manufacturer for larger orders, which would also be accretive to gross margins. With a richer product mix, we think operating expenses will need to increase to support the anticipated sales growth. We expect sales and marketing costs to grow as the company penetrates the professional market. Engineering costs will also expand in line with the product line up as AMS broadens its reach throughout the eco-system.

Key Driver 3 – Operating leverage

Atomos has invested heavily in opex to bolster internal research and development, marketing and administrative support in recent years which came at the detriment of profitability in FY17 and FY18.

Profitability rebounded strongly in FY19, with an EBITDA margin of 3%, but an incremental EBTIDA margin of ~8%. COVID-19 has impacted profit in FY20 and FY21, with EBITDA losses expected.

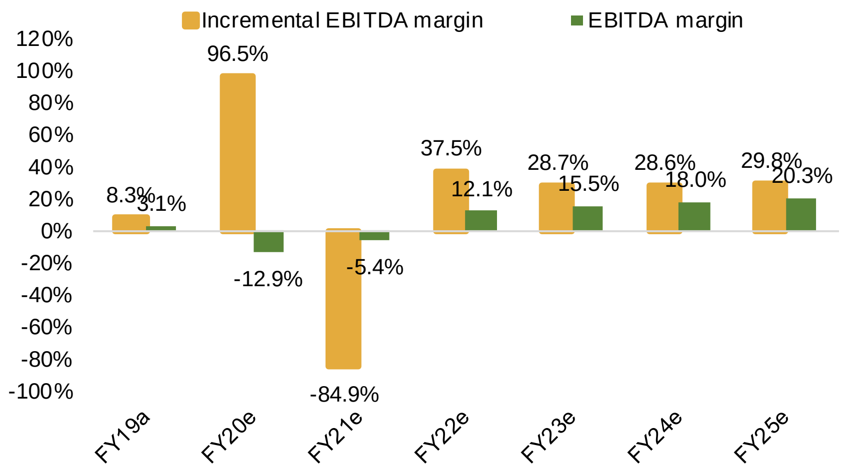
The permanent reduction in costs precipitated by the COVID-19 crisis has changed the operating leverage profile of the business and improved long-term EBITDA margins.

While we previously anticipated $106m in FY22 sales translating into EBITDA at a margin of 11.4%, we now expect FY22 sales of $70m to convert into EBITDA at a margin of 12.1%. While the net absolute EBITDA is lower ($8.5m vs prior $12.1m) due to top-line pressures, the long-term profitability margins of the business are much improved by these cost-outs.

If AMS can re-grow out of COVID-19 to reach our prior FY26 sales forecast of $223m (vs current forecast of $167m) at the new margin expectation of 22.3% (prior 19.7%), we would see EBITDA of $49.7m vs prior forecast EBITDA at $223m of sales at $43.8m, or a 13% upgrade.

In reality, we would expect an even higher margin on the additional sales thanks to operating leverage, implying an even larger EBITDA upgrade.

Figure 5 – EBITDA margin and incremental EBITDA margin



Source: OML

Key Driver 4 – Develop Strategic Relationships

AMS aims to evolve its current strategic relationships with global camera manufacturers and major software video editing providers, in order to achieve end-to-end integrated solutions. AMS monitors assimilate with global camera manufacturers, allowing for cross promotion. Further, by achieving a seamless workflow from capture, through recording and into post production, software relationships create an efficient process. The key strategic relationships are below:

Apple

In 2011, CEO Jeremy Young pitched his original Ninja 1 monitor to Steve Jobs. His proposition was recording ProRes directly from the sensor, which launched the strategic relationship with Apple and established credibility for the brand. Last year, AMS was granted a license by Apple for use of its updated recording format, “ProRes RAW”; a codec which creates much smaller video file sizes, while retaining the quality video data rates and editing capabilities. By achieving a seamless workflow from capture, through recording and into post production, ProRes RAW creates an efficient production process for AMS customers.

Adobe

The US manufacturer of computer software enables editing of video directly recording on an AMS device, removing the need for transcoding. This enables windows devices the same access to RAW workflows as IOS, using Adobe Premiere Pro CC or Adobe After Effects CC.

Cannon and Nikon

AMS products integrate with numerous camera manufacturers, including Canon and Nikon. By gaining access to proprietary image processing algorithms, AMS monitors can process colour, brightness, and image clean up. Marketing synergies are also established, with the example of Nikon’s Z6 & Z7 mirrorless cameras being cross promoted with AMS’ Ninja V monitor recorders. This is accretive for AMS, as products are sold with these Japanese cameras, driving monitor sales. Canon and Nikon’s market share is 2nd (36%) and 3rd (24%) in the mirrorless camera market respectively, based on sales figures between Nov 18 and Oct 19.

JVC Kenwood

In 2017 AMS signed a partnership with JVC Kenwood Corporation (JVC), a global Japanese electronics and Camera manufacturer. This agreement specifies JVC may acquire products from AMS, however there is no minimum volumes in the contract. There is also the option, if the requirement arises, for AMS to use JVC production facilities down the track, diversifying production risk for the company.

The two organisations have shared software and hardware technologies including AtomIC (under license), AMS’ first custom built silicon development project, which was licensed to JVC to be used in one or more of their products. These chips provide proprietary low power, high function video capability and are one of AMS’ key in-house proprietary technologies.

Risks

Higher Input Prices

- AMS cost of revenues will be sensitive to input prices of certain products, including semiconductor chips, LCD panels and memory.
- The memory chip market, mired in a significant downturn throughout 2019, seems to have bottomed out. Inventories are dropping and demand is rising, indicating a brighter year for the sector in 2020.
- The semiconductor market is expected to reach $573 billion by 2024, with a CAGR of 4.1% from 2019 to 2024. This will likely increase the price of manufacturing for AMS, impacting gross margins in the medium term.

https://www.asiatimes.com/2019/12/article/after-dire-year-memory-chips-poised-for-strong-2020/
https://www.businesswire.com/news/home/20191007005567/en/Global-Semiconductor-Market-Report-2019-573-Billion

Increased Competition

There are a range of other companies who produce similar monitor-recorder products in the market. We see competitors as a key risk to medium term growth, but we think this is partially offset by the growing TAM. Amateur content creation is still growing, and with the added product range, AMS can address new markets. Key competitors include, Blackmagic Design, Convergent Design and SmallHD.

AMS faces the risk that:

- Existing competitors could increase their market share through aggressive sales and marketing.
- Customers substitute with these alternative products.
- They may fail to anticipate and respond to changing opportunities or develop new products.
- Customers or strategic partners who purchase from or cross promote, may develop products which compete with AMS.

Macro Risks to Supply Chain

There are certain inputs for which the AMS has a single or limited source of supply. This inherently increases risk in the production process. Specific macro conditions affecting supply chain, including:

- COVID19, US China trade war, Hong Kong Protests

Lack of formal written distribution agreements

Given that in the USA a small number of distributors are responsible for 50% of the group's revenue, AMS is materially exposed to this risk. AMS does not have formal written contracts in place with most of its distributors, who order and purchase products on an ad hoc basis with no minimum purchase order obligations. Distributors may decide not to continue buying AMS products, which would have an impact on future revenue. AMS product cannot be bought from any source other than Atomos, however.

Product Obsolesce

The computer industry has very quick rates of product obsolescence, as new designs continue to eat up existing technology. Further, given the monitor recorder industry in which AMS exists is relatively juvenile, the rate of improvement is high. The typical customer cycle for AMS products is 3-5 years.

Remaining at the forefront of technological advancements in the industry depends heavily on the key strategic relationships AMS has in place; Apple, Sony, Nikon, Adobe etc. Were these relationships to break down or these large corporations take a different approach to the sector, AMS' growth prospects would be materially affected.

Atomos Limited

Speculative Buy

PROFIT & LOSS (A$m)	2018A	2019A	2020E	2021E	2022E
Revenue	35.6	53.7	45.9	41.6	70.3
Operating costs	(35.5)	(52.1)	(51.8)	(43.8)	(61.7)
Operating EBITDA	**0.2**	**1.6**	**(5.9)**	**(2.2)**	**8.5**
D&A	(0.3)	(1.5)	(3.5)	(5.0)	(5.2)
EBIT	**(0.1)**	**0.2**	**(9.4)**	**(7.2)**	**3.3**
Net interest	-	(0.0)	(0.4)	(0.3)	(0.3)
Pre-tax profit	**(0.1)**	**0.2**	**(9.8)**	**(7.6)**	**3.0**
Net tax (expense) / benefit	(1.8)	(0.8)	2.9	2.3	(0.9)
Normalised NPAT	**(1.9)**	**(0.7)**	**(6.9)**	**(5.3)**	**2.1**
Reported NPAT	**(15.6)**	**(2.0)**	**(8.2)**	**(5.3)**	**2.1**
Normalised dil. EPS (cps)	(1.2)	(0.4)	(3.3)	(2.4)	0.9
Reported EPS (cps)	(9.6)	(1.2)	(4.0)	(2.4)	0.9
Effective tax rate (%)	(1,381.9)	472.6	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	100.0	100.0	100.0	100.0	100.0
Diluted # of shares (m)	163.6	166.5	206.3	223.7	223.7

CASH FLOW (A$m)	2018A	2019A	2020E	2021E	2022E
EBITDA incl. adjustments	0.2	1.6	(5.9)	(2.2)	8.5
Change in working capital	(3.1)	(4.8)	(12.3)	6.0	(6.4)
Net Interest (paid)/received	(0.4)	0.0	(0.4)	(0.3)	(0.3)
Income tax paid	-	(0.2)	2.9	2.3	(0.9)
Other operating items	-	-	-	-	-
Operating Cash Flow	**(3.3)**	**(3.3)**	**(15.7)**	**5.7**	**0.9**
Capex	(4.4)	(3.1)	(3.5)	(2.7)	(2.7)
Acquisitions	-	-	(8.0)	-	-
Other investing items	-	-	(8.0)	-	-
Investing Cash Flow	**(4.4)**	**(3.1)**	**(19.5)**	**(2.7)**	**(2.7)**
Inc/(Dec) in borrowings	1.0	6.6	(0.5)	-	-
Dividends paid	-	-	-	-	-
Other financing items	(0.4)	(2.4)	(2.0)	-	-
Financing Cash Flow	**7.6**	**10.1**	**39.5**	**-**	**-**
Net Inc/(Dec) in Cash	(0.1)	3.7	12.3	3.0	(1.8)

BALANCE SHEET (A$m)	2018A	2019A	2020E	2021E	2022E
Cash	1.4	5.1	17.4	20.4	18.6
Receivables	4.8	8.0	9.2	7.5	12.6
Inventory	6.0	9.6	18.1	13.4	19.0
Other current assets	1.7	3.0	3.0	3.0	3.0
PP & E	0.8	1.7	2.5	2.2	1.8
Intangibles	7.7	8.5	42.0	40.0	37.8
Other non-current assets	-	-	-	-	-
Total Assets	**22.5**	**35.9**	**92.2**	**86.5**	**92.8**
Short term debt	2.7	1.5	1.0	1.0	1.0
Payables	8.5	10.5	9.2	8.8	13.0
Other current liabilities	0.5	0.6	0.6	0.6	0.6
Long term debt	-	-	-	-	-
Other non-current liabilities	0.0	0.0	1.3	1.3	1.3
Total Liabilities	**11.7**	**12.7**	**12.1**	**11.7**	**15.9**
Total Equity	**9.3**	**23.2**	**70.0**	**64.7**	**66.8**
Net debt (cash)	1.3	(3.6)	(16.4)	(19.4)	(17.6)

DIVISIONS	2018A	2019A	2020E	2021E	2022E

KEY METRICS (%)	2018A	2019A	2020E	2021E	2022E
Revenue growth	-	50.7	(14.6)	(9.4)	69.1
EBITDA growth	-	989.4	-	-	-
EBITDA margin	0.4	3.1	-	-	12.1
OCF /EBITDA	-	-	308.5	-	25.2
EBIT margin	-	0.3	-	-	4.7
Return on assets	-	-	-	-	2.6
Return on equity	-	-	-	-	3.2

VALUATION RATIOS (x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	-	-	-	-	57.2
Normalised P/E	-	-	-	-	57.2
Price To Free Cash Flow	-	-	-	24.1	577.1
Price To NTA	50.3	6.0	3.7	4.6	3.9
EV / EBITDA	-	-	-	-	11.3
EV / EBIT	-	481.6	-	-	28.9

LEVERAGE	2018A	2019A	2020E	2021E	2022E
ND / (ND + Equity) (%)	11.9	(18.4)	(30.7)	(42.8)	(35.8)
Net Debt / EBITDA (%)	833.8	(219.6)	278.4	867.5	(206.2)
EBIT Interest Cover (x)	-	176.0	-	-	9.6
EBITDA Interest Cover (x)	-	1,645.0	-	-	24.7

SUBSTANTIAL HOLDERS	m	%
Perennial	26.4	12.4%
Jeromy Young and family	17.7	8.3%
Ellerston	16.4	7.7%

VALUATION	
Cost of Equity (%)	12.2
Cost of debt (after tax) (%)	9.0
D / EV (%)	20.0
WACC (%)	**11.0**
Forecast cash flow ($m)	29.7
Terminal value ($m)	180.2
Franking credit value ($m)	3.3
Enterprise Value ($m)	226.4
Less net debt / add net cash & investments ($m)	(16.4)
Equity NPV ($m)	**210.0**
Equity NPV Per Share ($)	**1.03**
Target Price Method	Rolled forward DCF
Target Price ($)	1.15
Valuation disc. / (prem.) to share price (%)	115.4

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SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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