

# ESTIMATES

VALUE RANGE  
EUR 0.73 – 0.77



Wednesday, 20 February 2013

Implied Intrinsic Price	€0.75
Value Range Low	€0.73
Value Range High	€0.77
GXG Ticker	N/A
Financial YE	31-May
Currency	EUR

#### Business Activity

Social online gaming

#### Key Metrics

Implied MCAP ('000)	€14,868
Net Debt (Cash) ('000)	€0.00
Implied EV ('000)	€14,868
52 Wk Hi	N/A
52 Wk Lo	N/A
Free Float	N/A

#### Key Ratios

Net Debt (Cash) /	
Equity %	0.00%
FX Rate	N/A

#### Media Sector Research

##### GXG Index

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## Mowjow Plc Compact Valuation Changing Gaming?

Mowjow Plc characterises itself as a social money game on a mobile platform. Gamers compete over quiz questions with multiple-choice options against the clock (it is a game of skill rather than chance). Winning a round delivers a significant cash prize and access to the following round with greater value prizes. The gamer also gains social rewards for taking part. In this way Mowjow believes it can monetise social networking and offers both competitive and sharing enjoyment to players. The game mechanics are very straight forward and arguably tried and tested over decades. Mowjow claims its technology is proprietary. The target audience is global, significant and growing.

- Online gambling EUR 25bn market growing between 7-10% p.a.;
- Mobile apps EUR 20bn market;
- Social games (virtual goods) EUR 5bn market;
- Mowjow pays away 80% of revenues in prize and social rewards;
- EBITDA margin FY14E 7.4% rising to 10.5% to by year end.

ACF est. EUR (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2014E	34,200	164	-2,699	0.008	0.008
2015E	102,132	9,071	11,063	0.335	0.335

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2014E	0.43x	90.63x	-5.51x	93.36x	93.36x
2015E	0.15x	1.64x	1.34x	2.24x	2.24x

Share Price History	No. of Shares	
	in issue	Fully diluted
NoSh (m)	19.77	19.77
Implied Intrinsic Price	€0.75	€0.75
Value Range Low	€0.73	€0.73
Value Range High	€0.77	€0.77
GXG Ticker		N/A
Financial YE		31-May
Reporting Currency		EUR
NoSh (m)		19.77
NoSh (m) expected dilution (Exp D)		19.77
NoSh (m) full dilution (FD)		19.77
<b>Key Metrics</b>		<b>adj.</b>
MCAP (m)	€14.87	€14.87
Net Debt (Cash) (m)	€0.00	€0.00
EV (m)	€14.87	€14.87
52 Wk Hi	N/A	N/A
52 Wk Lo	N/A	N/A
Free Float	N/A	N/A
<b>*Key Metrics FCF adj.</b>	<b>2014E</b>	<b>2015E</b>
CPS	0.56	0.61
CPS (Exp D)	0.56	0.61
CPS (FD)	0.56	0.61
P/CPS	1.34x	1.23x
P/CPS (Exp D)	1.34x	1.23x
P/CPS (FD)	1.34x	1.23x

\*Note that in the table above we show unlevered Free Cash Flow Per Share (CPS) based upon current NoSh, expected dilution (Exp D) and full dilution (FD). P/CPS uses our implied close price as per front page and this page of note.

## Investment Case

### Competitive background

There are many players in the mobile gaming market and the initial creative game barrier to entry is very low. However to create a sustained business with long term growth potential requires considerable investment in infrastructure and licences. Mowjow's close partners have invested EUR 2m to date in a business that is a game of skill with cash prizes (and not gambling) obviating the costly, time consuming and reputationally fraught need to acquire and maintain gambling licenses. Mowjow has proprietary IP through via its "secret sauce" social rewards algorithms.

### Growth opportunity

Mowjow is not creating a market from scratch, its offering is about innovating and expanding a significant market. Gaming and playing games online is already an established behaviour amongst consumers. Mowjow's offering is aimed at greenfield subscribers as well as competing for share of existing wallet in a growth market.

#### ● Proven market

The online gambling market valued at greater than EUR 25bn; mobile apps is a EUR 20bn market; social media gaming (virtual goods) is a EUR 5bn market. The long run value of social media is largely unquantifiable, though advertising revenues are forecast to reach anywhere between USD 10-30bn by 2017, and reached around USD 6bn FY13A.

#### ● Strong management

Mowjow already has a skilled team of 14 individuals in place from C-Suite through to engineering, development, design and project management.

#### ● Licences acquired

US, Singapore, Malta and Norway – operational for transactions.

#### ● FCF positive FY15E

Mowjow expects to be FCF positive FY15E

## Catalysts

Closing round two of its equity financing plan; Website goes live (as opposed to the current holding page); Mobile app goes live; Public listing on a junior market such as London facing GXG Markets.

## Valuation

ACF est. EUR (k)	2013A	2014E	2015E	2016E	2017E
Revenue	0	34,200	102,132	165,825	242,519
EBITDA	-1.3	164	9,071	14,372	24,049
Net Income	-1.3	159	6,627	11,719	20,072
FCF	116.1	-2,699	11,063	12,046	18,409
CPS (diluted)	0.006	-0.137	0.560	0.609	0.931

Mowjow WACC Calc	*ERP EUR
Pre-tax cost of debt	4.0%
ETR	15.0%
After-tax cost of debt	3.4%
Current Leverage	
Debt	0.0%
Equity	14,868
Target Leverage	
D / (D+E)	46.0%
ACF $\beta$ adj levered	3.33
rf	1.91%
Rm	7.7%
ERP	5.8%
Cost of equity	21.24%
Risk adj.	80.00%
WACC	93.04%

\*Bloomberg ticker indicates ACF market ERP

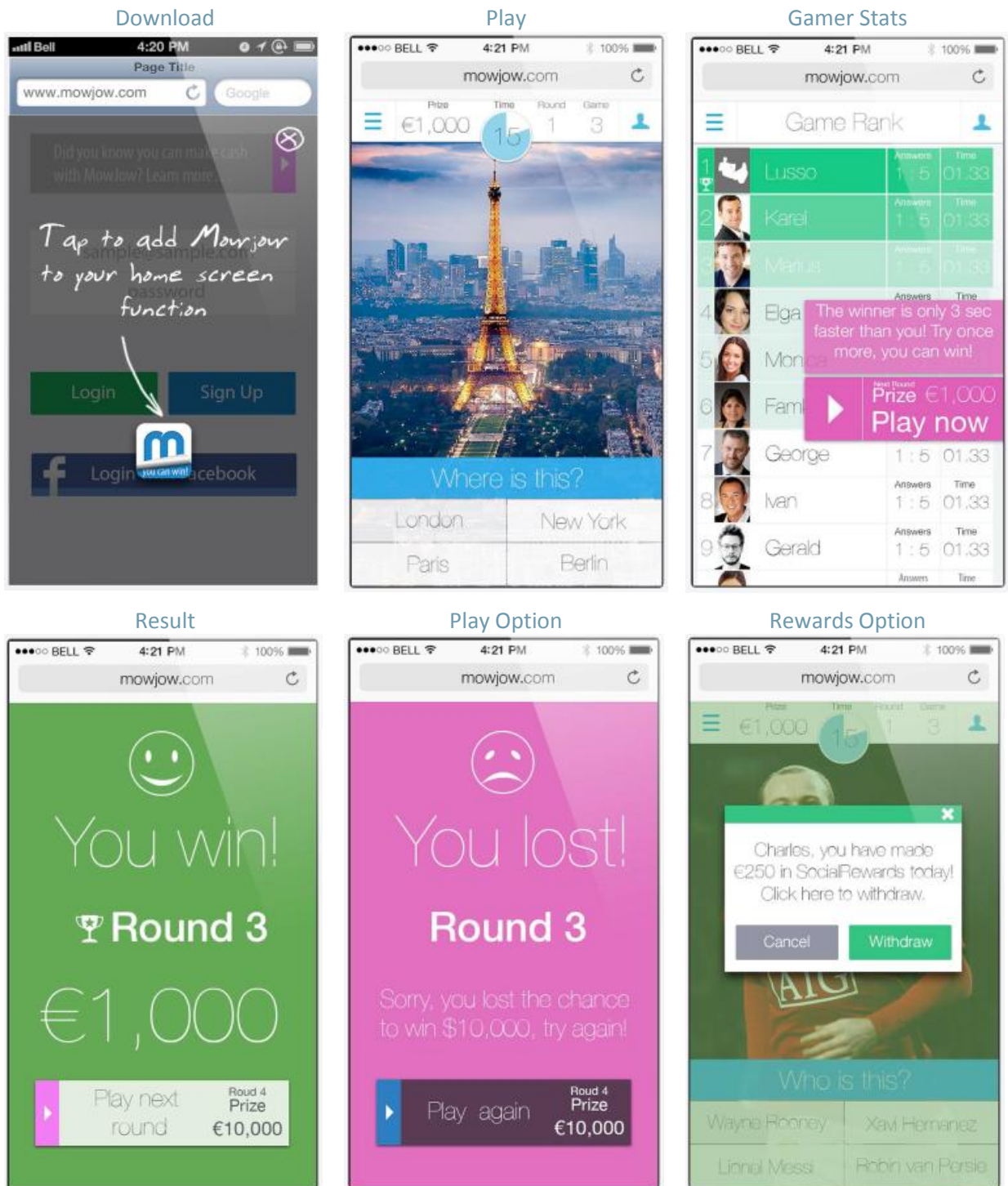
We have used an implied risk adjusted beta of 3.33, which we believe reflects a pre-IPO balanced risk adjusted assumption for Mowjow. Once Mowjow completes its IPO we would expect to reduce our risk adjusted beta assumption. Note that based upon the stock price behavior of relatively recent IPOs in the social media and online gaming spaces, we would expect significant volatility on listing before the stock settles and finds a beta more consistently correlated with its market index.

Valuation Range	
NPV uFCF ('000)	7,734
NPV TV uFCF (m)	7,133
EVF ('000)	14,868
TV Multiple	6.0x
% TV of total NPV	47.98%
Net Debt ('000)	0
Fair Value ('000)	14,868
NoSh (m)	19.77
NoSh (diluted) (m)	19.77
Intrinsic Value per Share €	0.75
Implied Close Price €	0.75
<b>VR (low - high)</b>	<b>0.73      0.77</b>
VR Spread	5.00%

**Note:** implied share price on front page of this ACF research note is based on shares in issue (NoSh) at the date of this note. The issued share capital is EUR 1,976,520 based upon 19,765,200 fully paid up shares of par value EUR 0.10.

## How it Works

Game access is straight forward. The “shoe leather” barrier to entry is low allowing gamers to become familiar with the game concept financial risk-free. We expect up to 10% of users to migrate to the pay-to-play version with cash prizes. However the migration rate could be higher driven by the cash social rewards “option”.



## Operational Strategy

Mowjow Plc considers that its gaming platform with financial and social rewards is a disruptive proposition. The company's founder and the management team believes that it has identified a significant, largely untapped, market.

The Company expects to provide a global offering. Mowjow's key opening market is the US, which arguably continues to dominate the future of the global digital economy.

Players can begin to participate for free. However Mowjow revenues are based upon a monthly subscription model, as opposed to advertising to which social media users are expressing limited, but increasing, resistance.

A monthly Mowjow subscription provides players with access to cash prizes. All transactions are handled electronically. In terms of employee numbers this has some parallel with the successful Dropbox strategy i.e. huge user base, significant value, very few employees per quantum of revenue.

Mowjow's entrance fees finance the prizes reducing the financial guarantee requirements for prize pools, according to management.

The game mechanics are effectively those of an instant lottery (scratch card) and pub quiz machine game.

The gaming platform is a web application using internet browsers on any internet-enabled device, which would include handheld, tablet, laptop and PC devices. The company believes the eventual target audience will number in the billions.

Cash prizes are central to the strategy but the gaming structure is expected to appeal to audiences that do not consider themselves gamblers, this appeal is further underpinned by the social rewards programme.

- **High prize money rewards from low stakes**

The prize money quickly becomes significant to the average player, starting at EUR 10 and rising to EUR 1,000 by round three. In broad terms cash prizes rise by an order of magnitude each time the player accesses a higher round, culminating in a EUR 1m jackpot. The barrier to entry to engage in non-cash prize play is minimal. For cash prize subscribers Mowjow's business model suggests that it expects to payout 80% of revenues in prizes, which is not unlike a national lottery financial model.

- **Social media rewards (Mojow's "secret sauce" algorithm)**

The social media space is a rapidly growing market that is changing consumer behaviour. Over 1bn individuals have some experience of regular or intermittent online social networks, such as Facebook, Twitter and LinkedIn.

## Financial Analysis

### • Revenue model assumptions

**Start-up strategy** - Low barrier to entry and stickiness: The company is pursuing a revenue strategy that we describe as “freemium”. Players can access the platform without paying, allowing them to “trial” the game “risk-free”. Under the free version, players are able to share with friends and earn social rewards, but no cash prizes.

**Gaming revenue line** - A subscription player receives 10 tickets per month to play 10 games. 10k subscribers would release 100k tickets. There are 10 players in a game, suggesting 1k games if 10k subscribers are playing. Game rounds are played in 100k ticket blocks. A new game is triggered the instant a previous game is closed. The more subscribers are playing the more games are commenced keeping the probability of winning relatively stable. The probability of winning a game is 10%, according to Mowjow. We assess this probability assumption holds if all players are equally skilled.

**Transaction revenue line** - Cash prizes are transferred quickly simply to player personal bank accounts. Mowjow expects to charge EUR 2.50 or 2.00%, whichever is the greater, on balance transfers.

### • Cost of sales (CoS)

The company calculates the social rewards due to a player using its “secret sauce” algorithm, which measures metrics such as social reach, conversion and frequency of interaction. In effect Mowjow aims to stimulate players to exchange information and introduce/attract new members.

Social rewards earn a cash remuneration and this, at the early stage, implies a cash burn. This is noteworthy because Mowjow plans to pay out 20% of revenues towards social rewards, which initially, requires funding.

If a player wishes to play for cash prizes too he or she must pay a fixed monthly subscription for 10 plays and top up for extra plays, this is the premium part of the offering. The company expects to payout 60% of revenues to fund cash prizes.

### • Break even

Mowjow believes that because the great majority of costs are variable the breakeven number of players paying a monthly subscription is as low as 10,000 users.

In our experience up to 10% of users take up the paying part of freemium services. However there are indirect examples that play much more in Mowjow’s favour. Software goliath, Microsoft, offers hotmail free but charges a premium for use of its operating system (o/s) and software suites. Google has a freemium model for its entire o/s, but it charges advertises et al for use of the behavioural data sets. Both companies have multi-billion revenues and MCaps, as well as neo-monopolistic market positions.

## Notes [Intentionally Blank]

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