

MGM Wireless Limited

Watching Out For Kids

Highlights

- In October 2017 MGM Wireless (ASX: MWR) released its SPACETALK children's smartwatch to the public, after three years of research and development. The watch is an all-in-one phone, GPS tracker, messaging service and step counter aimed specifically at children and parents wanting to stay in contact without the pitfalls of social media and the broader internet. Other applications including aged and disability care are currently being discussed.
- Sales have commenced via the Company's owned website www.allmytribe.com and negotiations are currently underway with telecoms and bricks and mortar retailers for a wider sales network.
- SPACETALK is the world's first kid's smartwatch that uses best practice security encryption and privacy features. It is certified for all mandatory Australian Regulatory Compliance and has been built to meet strict European privacy laws.
- Cheaper, lower quality competitors have been banned in Germany and pulled from stores in the UK/US as a result of poor security and lack of necessary accreditation.
- Following consultation with telecoms and retailers, MGM has lifted its forecasted annual sales potential to 130,000 to 180,000 smartwatches (from 3,000 – 10,000).
- SPACETALK research and development has been funded by MGM's existing schools communications business: an SMS and in app based solution for schools to communicate with parents. This business produces annual revenues in excess of \$2.0 million.
- Kid's smartwatches is forecasted to represent 30% of total global smartwatch sales of \$17.4 billion in 2021 according to Gartner research. Sales in 2021 will total 24 million units or US\$5 billion in sales.
- Bricks and mortar sales channels ramping up which have shown in the wearables market to lift sales over 100%. Expectations of signing a major Australian retailer shortly to significantly increase retail footprint.
- Extremely low market cap of \$15 million and valuation relative to other wearable device manufacturers as the kid's smartwatches market set to experience robust growth.
- Zero debt and \$3 million cash on hand.
- Recent \$1.8 million capital raising (placement and SPP) places MGM in solid position to capitalize on strong uplift in sales with low hurdle of 3,000 to 5,000 smartwatches to reach profitability (SPACETALK division).

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Software and Services

Current price (\$) 1.36

Price target (\$) 4.33

12-month rating STRONG BUY

Company data

Market capitalisation (\$m)	15 mln
Net cash (\$m)	3.0 mln
Enterprise value (\$m)	12 mln
Shares on issue	10.5 mln

Top 5 shareholders

	Shares (m)	%
Mark Fortunatow	1.7	17.4
Mark Hurd	0.63	5.9
Yavern Creek Holdings	0.27	2.6
Ryanu Family Trust	0.25	2.4
Pink Style Pty Ltd	0.24	2.3



ALL MY TRIBE
SPACETALK



Background: Creation Of The Kid's Smartwatch

A New Global Category: The Social Issue

Kid's Smartwatches are aimed primarily at children aged 4-13, before parents allow them to have their own mobile phone. In our opinion these are clearly not "toys" but safety devices that solve a number of global social issues and have technology/features that exceed that of adult smartwatches.

Best of breed kid's smartwatches aim to solve three key social problems:

- 1) Keeping children safe enabling constant contact with parents via phone, messaging and GPS tracking/locating services and an automated "SOS" in case of emergency
- 2) Reducing exposure to the internet and social media and other unwanted/dangerous material
- 3) Keeping children engaged and active

As children begin school and their freedom begins to grow with more educational, social and sporting demands, navigating their security and safety is a serious parental issue. Arming children with a mobile phone opens up a world of new problems ranging from difficulty of use for younger children, access to the internet and social media, distractions during school hours, in emergency cases phones are not accessible (in school bags, not heard) and high risk of being dropped or lost.

Pediatricians and psychologists have constantly warned of the impact of having too early exposure to the internet. A recent ABS study (and backed by other global studies) found that there has been increasing number of children using the internet at younger ages, sometimes as early as 3 years old. This increase in internet access has raised some alarming statistics that show 20% of 8-13 year olds reported seeing something on the internet that bothered them and 10% of children aged 10-11 years old have reported being cyber bullied rising to 17% of children aged 12-13 years old. These trends continue to rise with every new study released.

Wearable devices for children such as fitness trackers have aimed to solve point 3; keeping children active. Step counters, activity goals, etc are used track children's activity and great to motivate children away from time on the internet and other static electronic devices. These however, fail to have an element of mobile communication or GPS tracking.

The ideal device is one that solves each of these issues, hence, the creation of the kid's smartwatch.

How do kid's smartwatch devices operate?

The smartwatch requires a SIM card to connect to a 3G cellular network and an app is downloaded (from Apple App store or Google Play) to the parent's phone in order to activate and use the devices. A monthly charge is billed for the use of the app. The app is the central place for controlling watch features, alerts and GPS monitoring. The app is used to create a list of authorized contacts that can be reached to and from the watch, set safe zones for GPS tracking with alerts created if the watch is removed from the safe zone. Watch features differ between manufacturers with some offering messaging to and from the watch, SOS button for emergency, step counters, torch, current location sent on request and battery power notification.

Naturally there is a huge disparity amongst the manufacturers on quality, reliability, durability, security, privacy and price. Prices range from as little as RRP\$150 for the lowest quality and least secure device to the RRP\$349 mark for the highest quality, most secure and most reliable. MGM's SPACETALK watch stands alone as best of breed in the global market place across every single device feature.

Global Kid's Smartwatch Market

Forecasts: Sales and Units

The next three years will see substantial growth in the market for wearable devices as consumers continue to increase their purchases of smartwatches, fitness monitors and Bluetooth headsets increasing their global market penetration. Wearable devices as an entire market segment will continue to grow strongly over the coming years with US\$30.5 billion in sales in 2017. Of that US\$9.3 billion will be purely from smartwatches rising to \$17.4 billion in 2021 – *Gartner Research 2017*.

Gartner research has identified a new emerging and fast growing category within the market for smartwatches – kids' smartwatches. It is expected that kid's smartwatches will represent 30% of total smartwatch unit shipments in 2021.

"Smartwatches are on pace to achieve the greatest revenue potential among all wearables through 2021" Gartner Research 2017

This equates to substantial growth for a segment that up until recently was not even considered a market category. This identifies a significant market opportunity to create a high quality, well produced and secure smartwatch that can capture mass market share. The kids' category (30% of total smartwatch sales) is forecasted to have a market size in 2021 of 24 million units (Chart 1) or US\$5 billion in sales.

Chart 1 – Global Wearables Market Sales (millions of units)

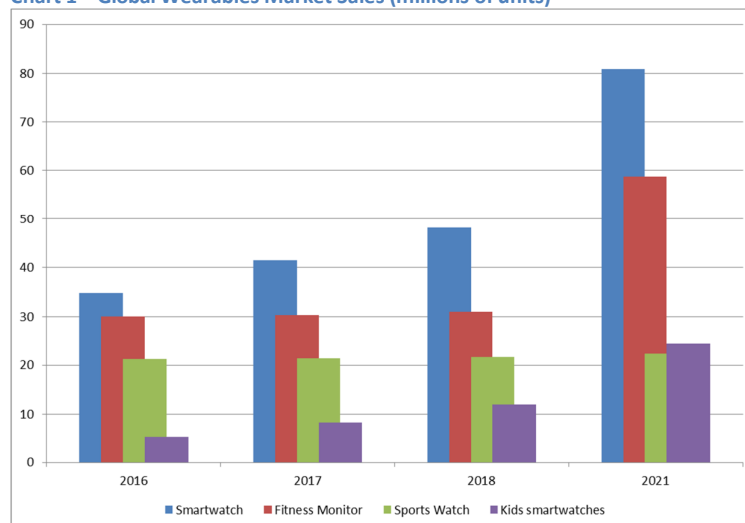
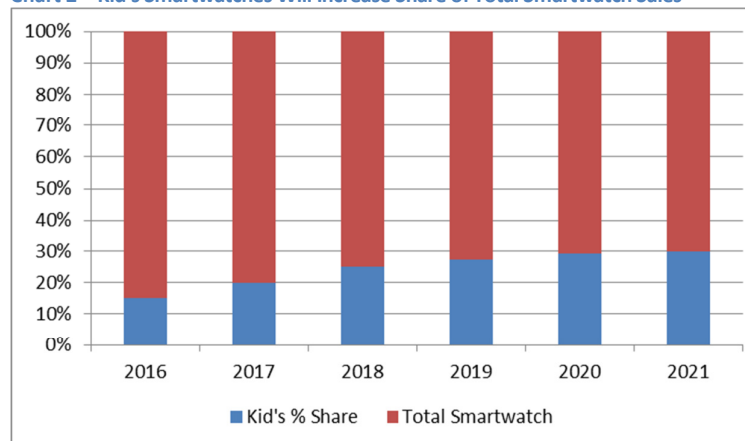


Chart 2 – Kid's Smartwatches Will Increase Share of Total Smartwatch Sales



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Kids' Smartwatch Manufacturers and Brands

The major manufacturers of kid's smartwatches and their country of origin are listed below. Many manufacturers "white label" their phones for rebranding by distributors and importers. The smartwatches are sold at a lower price point due to their lower quality and levels of reliability.

- Gator (China): sells under many different brands across the globe including Tic Toc Track in Australia
- Wonlex (China): sells under several brands including the Moochie branded watches in Australia
- Xplora (South Korea): sells the Xplora watch with main dominance in South Korea
- Doki (China): sells in Hong Kong and China
- Anquanshouhu Technologies Ltd (China): sells in China and the Viksfjord watch in Norway
- Tinitell AB (Sweden): company ceased manufacture in 2018 as a result of poor quality and security.
- MGM Wireless (Australia): sells the SPACETALK watch under the AllMyTribe.com ecosystem

Kids' Smartwatch Security Issues

Commissioned Security Tests by the NCC

Being a relatively nascent market category, there has been a reluctance to create a quality well engineered children's smartwatch and as a result the landscape is dominated by low quality, poorly manufactured smartwatches that have little to no security against hacking or privacy breaches.

As the digital age evolves the issue of security and privacy are becoming more and more prevalent as the privacy breach by Facebook this year reflects. The issues surrounding the privacy and security of children is of higher importance but unfortunately many watch manufacturers have failed to adhere to existing laws (see below) and we predict that as the category evolves, there will be lift in global security requirements, adherence and supervision by authorities. This will provide a barrier to entry in many global markets as the majority of smartwatch manufacturers from China fail to meet the minimum security and privacy required.

In October 2017, the Norwegian Consumer Council (NCC) published a review of four smartwatches for sale in Norway and lodged a formal complaint over three. Their tests revealed serious security and privacy risks and poor reliability which resulted in these specific brands being banned in Germany and several UK stores removing the smartwatches from sale. A formal complaint was lodged over:

- Gator 2
- Xplora
- Viksfjord

The NCC found two of the products – Gator and Viksfjord – had alarm features that include the SOS button that were unreliable and therefore gave parents a false sense of security since they are marketed as "Giving parent's peace of mind". The watch was also unreliable with its safe zones (due to poor GPS tracking technology) and also gave unreliable alerts. In addition to unreliability, technical tests found major security flaws. Unauthorized parties could access personal data and functions on the apps/watches through various forms of attack. Attacks could reveal child's location, access to accounts and manipulation of the data being sent to parents about the child's location, enable the watch to be used as a bugging device along with several other serious security problems.

The NCC stated "the severity and extent of the security holes suggest the companies have taken few precautions to safeguard the consumer's personal data. This is particularly serious in light of the fact that it concerns children and their movements".

Since the security findings in the Gator 2, Xplora and Viksfjord watches were deemed to be serious the result has been the aforementioned ban in Germany and recommendations by the relevant authorities that existing watches be destroyed.

Image 1 – NCC results of tested kid's smartwatches








				
Consent is sought at registration.	✗	✓	✗	✗
I will be notified if the terms are changed.	✗	✗	✗	✗
My personal data will not be used for marketing purposes.	✗	?	?	✗
I can delete data in the app.	✗	✗	?	?
Location data is automatically deleted after a set period of time.	✗	✗	✗	✗
I can delete my user account.	✗	✗	✗	✗
Promises to implement reasonable security standards.	✗	✓	✗	✗
It is made clear where personal data is transmitted and stored.	✗	✗	✗	✗

Image 2 – SPACETALK comparison to competitors

			
3G mobile bands	High band	✓	✓
	Low band	✗	✓
Reliable mobile coverage across Australia		✗	✓
Complies with Australian telecommunications network requirements		✗	✓
Tested and certified to Australian standards and safe for kids to use		✗	✓ 
Kids' data stored in		Overseas (typically China)	Australia
Data secure and stored in		✗	Australia
Data protected by Australian privacy and security laws		✗	✓
Apps developed in		Overseas (typically China)	Australia

The Gator 2 watch is currently sold in Australia and the US (under the Tic Toc Track brand) and in addition to the NCC findings and complaints the US Federal Trade Commission sent warning letters to Gator and Tinitell that they are required to comply with the Children's Online Privacy Protection Act (COPPA) Rule. Warning letters were also sent to the Apple App Store and Google Play.

We believe that as the category continues to accelerate in popularity relevant global authorities including Australia will begin to crackdown on poor quality, low security brands and manufacturers thereby creating a higher barrier to entry and the removal of several current brands from the domestic/international market.

MGM uses best practice security and privacy measures

As part of MGM's goal to have the most secure, reliable and advanced kid's smartwatch on the market has been designed using best practice security measures. The result of MGM working within the Australian education system and developing secure communication platforms over the past 17 years has meant the SPACETALK watch was always designed to meet the most stringent security and privacy regulatory standards.

An independent international cyber security audit validated the SPACETALK and AllMyTribe app as "using best practice security for authenticated and encrypted communications between subsystems, and best practice identity authentication" and "overall, technical security of the SPACETALK watch and the AllMyTribe ecosystem is implemented well and is appropriate for its purpose".

Furthermore, the audit found that the "SPACETALK watch and ecosystem do not exhibit any of the technical weakness identified and investigated in the Norwegian [NCC] review of similar devices".

The audit was conducted by Dr Mathew Sorell, of the School of Electrical and Electronic Engineering at the University of Adelaide. Dr Sorell is a recognized cyber security expert and was appointed in 2017 to the INTERPOL Digital Forensics Expert Group specializing in smartwatches and wearable devices.

He concluded that "the technical security and privacy measures implemented exceed what I would consider to be the contemporary levels of security appropriate as it exists today".

Moreover, SPACETALK also complies with strict European privacy and other international standards, ensuring that its use in international markets meets the requirements of individual jurisdictions.

Specific Absorption Rate (SAR) and Australian RCM accreditation

Radio Frequency (RF) transmitters used in close proximity to the human body must be evaluated against human exposure standards which set basic restrictions for the Specific Absorption Rate (SAR) of RF energy by any part of the human body. This may include two-way radios, cellular phones, smart phones, spread spectrum, Bluetooth devices and WLAN devices used in mobile devices. Virtually all devices exceeding the power threshold of 20mW (13dBm) and used in close proximity to the human body must comply with SAR requirements. Within Australia the Regulatory Compliance Mark (RCM) serves as evidence that the product meets SAR and other electric safety standards and the logo must appear on the product.

SPACETALK has the RCM accreditation in Australia and European Certification (EC) while we have found no evidence that several other domestic competitors have RCM accreditation. As a result they are not certified for sale within Australia and are at risk of being banned.

SPACETALK/AllMyTribe Features

The SPACETALK watch was launched in October 2017 and has already experienced several software updates to incorporate new features. As of May 2018 the current features available are:

3G Phone: Make and receive phone calls from a list of up to 20 contacts. Contact list is loaded via the AllMyTribe app on parent's mobile phone. Calls are not received from non-approved contacts, instead a message is sent to the parents alerting them of a non-approved caller.

SMS Messaging: Receive SMS messages to the smartwatch and reply via a list of words/phrases and emojis. Words/phrases are created and edited via the AllMyTribe app to suit the child's interest/lifestyle.

Safe zones and Alerts: 'Safe zones' can be created via the location feature on the app. An alert is generated when the GPS tracker locates the watch outside the safe zone, such as school grounds.

SOS Alert: When SOS button is held down for 5 seconds, the watch automatically calls each member of the emergency contact list until someone responds. An alarm can be sounded and the location is sent to the app.

GPS Tracking: Automatically reports child's location at predefined intervals.

Send Location: sends child's location point immediately to the app upon activation on the watch.

School Mode: Allows certain watch functions to be disabled during school hours to prevent classroom distractions.

Step Counter/Pedometer: records child's activity with goals being able to be set via the app.

Battery Life: over 24 hours of battery life

Battery Monitoring: current battery life can be viewed via the app, with an alert sent when battery life drops below 15%.

Torch: whole screen lights up to generate a torch-like effect

Stopwatch: record time elapsed including lap times

Touchscreen: High Resolution (240 x 240 pixel)

Watch face Wallpaper: Upload any photo as the watch face via the app.

Aside from security, SPACETALK's key differentiation is its high level of quality, durability, functionality and reliability with the Company testing over 23 different aerial combinations to ensure the best coverage over "grey" areas on Telstra's 3G network (both high and low band). Testing of a smartwatch model to be used across the Vodafone and Optus networks is currently underway with expectations of release by year-end.

Several members of the Gleneagle Securities team purchased the watch for our own children and have conducted an independent review for several weeks while conducting research on the broader kid's smartwatch industry, competitors and specifically SPACETALK. All our findings and feedback from children and parents have been in keeping with all positive reviews of SPACETALK on social media and consistent with MGM's own feedback. Clarity of calls were crystal clear, messages were received instantly including alerts that we tested and the accuracy of the GPS was exceptional – including circumstances of GPS locations following movements of the watch over just several metres.

In addition, we reviewed other Australian competitors and in our opinion these watches were substantially inferior in design, were poorly assembled using cheap plastic components with network reception frustrating and GPS tracking at times unreliable (all similar to the NCC investigation). Reviews of these watches across social media and review websites have been significantly lower across users of these watches than that for SPACETALK. Specific customer reviews supported our findings under real world use.

Australian Market Size

South Korea A Proxy

Originally while designing and testing SPACETALK, MGM believed the market size to be in the range of 3,000 to 10,000 watches per annum. Following sales and distribution discussions with retailers and telecoms, feedback indicated more realistic annual sales targets of 130,000 to 180,000. These targets are in line with Gartner research forecasts.

Using penetration percentages and associated app download rates in more mature regional markets in this category can give early indications of the size of the Australian market. Using a combination of national age data, Google Play app download rates and individual manufacturer numbers we have been able to approximate sales numbers for a market leader in the Australian market.

South Korea has similar demographics, income and living standards as well as technology (mobile phone) usage rates to Australia. South Korean Xplora kid's smartwatch boasts more than 350,000 total users worldwide after launching its first kid's smartwatch in 2016. This is a solid uptake in a short two-year period, consistent with Gartner research projection rates and confirming the creation of a new product category. Using Google Play download rates of the Xplora associated app in countries outside South Korea (less than 10,000 per country) we estimate that 85% of its customers are located within South Korea - totaling approximately 297,500 users. As the table below shows this is a market penetration rate of 8.75% for children aged 4-11.

Applying a similar penetration rate to Australia's 4-11 age population suggests a market leader would have a user base of 183,750, after two years. This is consistent with the current research estimates given by Gartner and retailer/telecom feedback.

Figure 1 – Xplora Watch Penetration Rates Applied To Australia

	Population Ages 4-11	Leading Market Position (Total Users In Year 2)	Penetration Rate
South Korea	3,400,000	297,500	8.75%
Australia	2,100,000	183,750	8.75%

We have already begun to witness an acceleration of market education of the benefits of kid's smartwatches via social media circulation, online promotion, paid TV advertising and reviews on Channel 7 news, the Today Show etc. As MGM and its competitors share the burden of educating the market of a new product category adoption rates with in Australia should mirror rates of other countries.

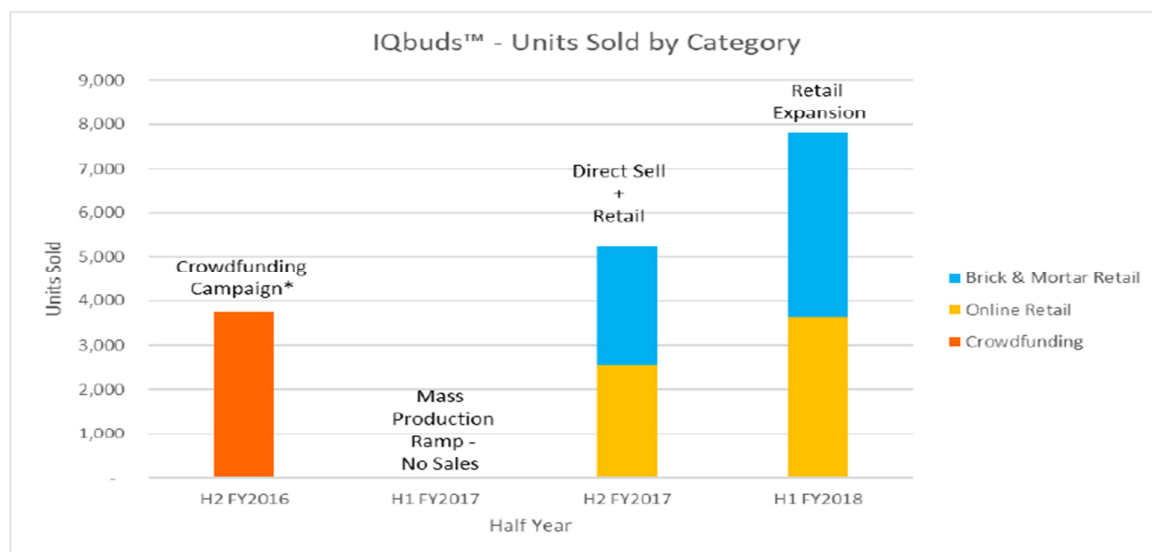
Telecom and Bricks & Mortar Retail Partnerships Are Key To Growth

Xplora in South Korea were able to achieve such a strong take-up after just two years due to partnering with South Korea Telecom and thus accelerating market penetration.

Our research of competitor price points, landed import costs, revenue models and associated security, reliability and quality concerns gives very little chance that these will appear in any major brick and mortar retailer or sign a distribution partnership with a major local telecom. Margins are far too tight at price points below \$200 to achieve a sustainable long-term business model. Given this, these competitors will rely solely on online sales and are therefore unlikely to achieve a dominant market share. This leaves SPACETALK with the leading opportunity to be the dominant player in the kid's smartwatch category.

Further examples of the impact of bricks and mortar retailing on sales can be referenced from other wearable device manufacturers. ASX listed Nuheara (NUH) retails its premium wireless ear buds (IQbuds) for US\$269.00 (A\$345). Chart 3 shows the impact of bricks and mortar sales have had over online sales in the second half FY2017 and first half FY2018. Not only were bricks and mortar retail sales more than 100% larger than online sales in both halves but the rate of growth was also larger as the retail footprint grew.

Chart 3 – Bricks & mortar retailing have a significant impact on total sales
IQbuds™ continue strong sales growth trajectory



*Crowdfunding campaign revenue was recognised post manufacture with units invoiced/shipped during H2 FY2017

On April 18, 2018, MGM announced distribution partnership with several Telstra franchisees (awaiting Telstra head office sign off) and we expect that further franchisees will be signed as distributors in CY2018.

MGM also indicated they expected to sign bricks and mortar retailers and/or telecoms by the end of the current financial year which we believe is imminent and would be a game changer in terms of SPACETALK sales, user adoption and achieving a market dominant position.

SPACETALK Revenue Model

A Sustainable Business Model

SPACETALK retails for \$349 with a monthly app fee of \$5.99 (\$4.19 net to MGM) for up to 2 devices and \$8.99 (\$6.29 net) for up to 5 devices. MGM does not earn anything from the telecom SIM plans that customers sign up to enabling choice of service provider and plan.

The recurring revenue of the monthly app fee does move the Company away from a pure hardware sales business model and closer to that of a software service business and therefore should command a higher valuation and earnings multiple on a relative basis.

While the retail price of \$349 does place it at the premium end of the market, the price reflects the engineering, design, quality and safety features the smartwatch provides. Furthermore, the higher price does allow for a sustainable business model with attractive margins when sold through bricks and mortar retailers.

Another point of consideration is the fitness trackers aimed at the 4-13 year old range, like the Garmin Vivofit Jnr, currently retailing for \$129. Considering the additional features available on SPACETALK while still maintaining the benefits of a fitness tracker, on a relatively sense, can be argued as representing value.

Depending on manufactured volumes and exchange rates we forecast a landed cost range of \$100 (low volume) down to \$75 for high volume production. We estimate a wholesale price of slightly above \$200 to large bricks and mortar retailers – but use \$200 as a conservative modelling assumption. We arrive at gross margins of 50% to 62% on wholesale sales and over 69% via its AllMyTribe online store. This filters through to EBITDA margins of approximately 33%.

High Level Sales Potential Estimates

An initial high level sales forecast table is shown in Figure 2 (below) following any further successful rollout into bricks and mortar retailing.

Telstra franchisees that we spoke to indicated sales of 20 units per month to be a consistent sales benchmark per store. The ability of buyers to package the purchase of SPACETALK into a new or existing plan would mitigate any pushback experienced on an outright purchase via other retail/online sales channels. As a result, we apply a 50% discount to bricks and mortar retailer's monthly sales numbers (10 units per month).

In our sales forecast assumptions we use the JB Hi Fi retail footprint as an example with a total of 192 Australian stores (not including the 104 Good Guys stores) of potential monthly and annual sales numbers. We also do not include potential sales through other retailers including Harvey Norman, Bing Lee, Myer or David Jones, any of these retailers own online stores or other sales avenues including schools, sporting clubs etc. Our telecom assumption is the Telstra retail store footprint including franchisee stores owned by Vita Group.

An annual sales range of 96,192 to 120,040 units is a realistic assumption and in line with all independent global forecasts, retail/telecom feedback and comparison penetration of other national markets.

Figure 2 – Potential Aust. sales estimates through one retailer and one telecom

	Stores	Monthly Sales Per Store	Total Monthly Sales	Annual Sales	20% Discount
B&M Retailer	192	10	1,920	23,040	18,432
Telecom	380	20	7,600	91,200	72,960
AllMyTribe	1	500	500	6,000	4,800
Total	573	530	10,020	120,240	96,192

SPACETALK Net Revenue and Sales Forecasts

Our financial forecasts are purely focused on the SPACETALK business and does not account for any of its existing schools communication business that generates annual revenues of \$2.0 -2.5 million which allowed the Company to be debt free and maintain a relative consistency of profitability over the past 17 years.

We factor in a major bricks and mortar retailer being signed by the end of June 2018 (in line with company guidance) and a major telecom shortly after. We anticipate that as a new market category, there is an element of a “rollout” process required to educate sales staff in the product features and benefits. We anticipate a major retailer will immediately stock the product online while initially rolling out to stores with the best demographics suited to SPACETALK customers. Our retail store foot print assumptions (using JB Hi-Fi network as an example) assume a full 12-months to roll out to all its existing 194 Australian stores. Good Guys branded stores would be added only in 2020.

Our “Base Case” forecasts assumes monthly sales per store of half the rate that retailers have suggested to us. This is clearly conservative relative to the Gartner research forecasts, our Australian market size predictions and potential market penetration (using South Korea as a proxy) – discussed earlier in this report. Our base case assumes total accumulated unit sales of 40,385 or market penetration of just 1.9%, two years after its launch. As shown previously in Figure 1 this compares with potential of 183,750 or 8.75% market penetration, based on the Xplora watch. Our forecasts assume a lower market penetration of 7.7% even three years after launch.

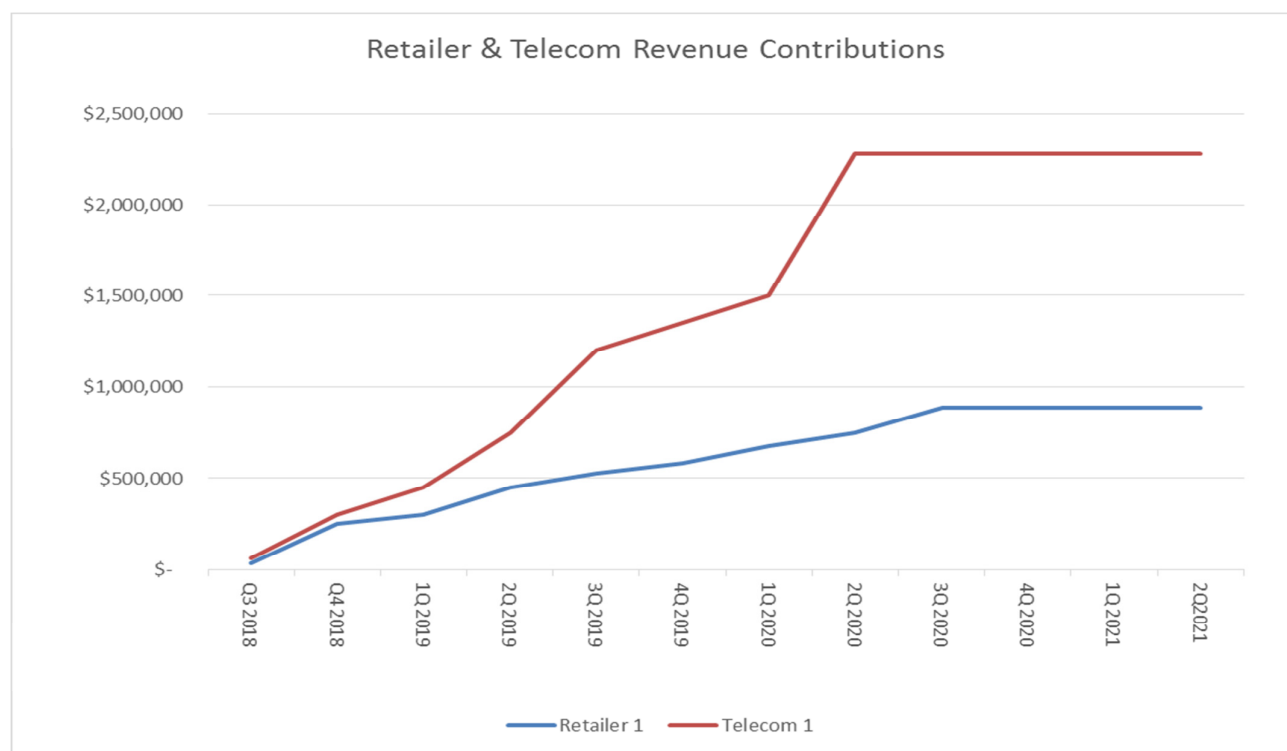
We have made no assumptions of any benefits from international expansion or the introduction of Optus and Vodafone networks (500+ stores combined), nor the inclusion of any 2nd or 3rd retailer stocking SPACETALK.

Importantly, we estimate that the SPACETALK/AllMyTribe business will be profitable after sales of 3,000 – 5,000 smartwatches, indicating profitability by the end of 2018 where sales would have reached 6,950 smartwatches.

Table 1 – SPACETALK net revenue targets for MGM (Quarterly)

SPACETALK DIVISION	Sales Channel	2017-18	Q3 2018	Q4 2018	1Q 2019	FY2019 2Q 2019	3Q 2019	4Q 2019	1Q 2020	FY2020 2Q 2020	3Q 2020	4Q 2020	1Q 2021	FY2021 2Q 2021
Retailer 1	Online			\$ 15,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
	Store		\$ 36,000	\$ 252,000	\$ 300,000	\$ 450,000	\$ 630,000	\$ 698,400	\$ 810,000	\$ 900,000	\$ 888,000	\$ 888,000	\$ 888,000	\$ 888,000
Telecom 1	Stores		\$ 60,000	\$ 300,000	\$ 675,000	\$ 900,000	\$ 1,440,000	\$ 2,025,000	\$ 1,800,000	\$ 2,736,000	\$ 2,736,000	\$ 2,736,000	\$ 2,736,000	\$ 2,736,000
AllMyTribe	Online	\$ 594,000	\$ 200,475	\$ 267,300	\$ 222,750	\$ 311,850	\$ 445,500	\$ 445,500	\$ 445,500	\$ 445,500	\$ 445,500	\$ 445,500	\$ 445,500	\$ 445,500
Recurring Net App Revenue	\$4.19	\$ 25,140	\$ 40,413	\$ 87,362	\$ 159,953	\$ 259,885	\$ 410,725	\$ 602,631	\$ 787,410	\$ 1,036,673	\$ 1,285,182	\$ 1,533,691	\$ 1,782,200	\$ 2,030,709
Total Quarterly Net Revenue			\$ 336,888	\$ 921,662	\$ 1,387,703	\$ 1,951,735	\$ 2,956,225	\$ 3,801,531	\$ 3,872,910	\$ 5,148,173	\$ 5,384,682	\$ 5,633,191	\$ 5,881,700	\$ 6,130,209
TOTAL Annual Net Revenue		\$ 619,140				\$ 4,522,987				\$ 15,658,839				\$ 22,909,781
Revenue Assumptions														
Retailer 1	Online Sales (Mnthly)		20	25	50	50	50	50	50	50	50	50	50	50
	No. Stores	0	15	84	100	150	175	194	225	250	296	296	296	296
	Store Sales (Mthly)		4	5	5	5	6	6	6	6	5	5	5	5
	Price		200	200	200	200	200	200	200	200	200	200	200	200
	Store Unit Sales (Qtr)		180	1260	1500	2250	3150	3492	4050	4500	4440	4440	4440	4440
Accumulated Unit Sales			240	1575	3225	5625	8925	12567	16767	21417	26007	30597	35187	39777
Telecom1	No. Stores		5	25	75	125	200	225	250	380	380	380	380	380
	Store Sales (Mthly)		20	20	15	12	12	15	12	12	12	12	12	12
	Price		200	200	200	200	200	200	200	200	200	200	200	200
	Store Unit Sales (Qtr)		300	1500	3375	4500	7200	10125	9000	13680	13680	13680	13680	13680
Accumulated Unit Sales			300	1800	5175	9675	16875	27000	36000	49680	63360	77040	90720	104400
Aust. Total Store Foot Print			20	109	175	275	375	419	475	630	676	676	676	676
AllMyTribe Website	Online Sales (Mthly)		225	300	250	350	500	500	500	500	500	500	500	500
	Price		297	297	297	297	297	297	297	297	297	297	297	297
	Units Sales (Qtr)		675	900	750	1050	1500	1500	1500	1500	1500	1500	1500	1500
Accumulated Unit Sales		2000	2675	3575	4325	5375	6875	8375	9875	11375	12875	14375	15875	17375
TOTAL Accumulated Unit Sales		2000	3215	6950	12725	20675	32675	47942	62642	82472	102242	122012	141782	161552
Sales Growth Qtrly			61%	116%	83%	62%	58%	47%	31%	32%	24%	19%	16%	14%
Australian Market Penetration		0.1%	0.2%	0.3%	0.6%	1.0%	1.6%	2.3%	3.0%	3.9%	4.9%	5.8%	6.8%	7.7%

Chart 4 – SPACETALK revenue contributions (Quarterly)



Sensitivity Analysis

Forecasting the potential success and mass market adoption of any new category is fraught with potential errors both positive and negative. While we believe our base case forecast is conservative considering the dominant and superior product SPACETALK provides it is nonetheless important to understand the impact of sales above or below our primary forecasts.

Bull Case: This assumes following the successful release of the SPACETALK watch for the Optus/Vodafone network (Dec 2018), a distribution agreement is signed. However, we only assume sales begin in 2Q 2019 with sales rates identical to that for the Telstra network despite greater consumer awareness of the product in 2019.

Delayed Case: We assume a telecom and retail rollout is slower than anticipated with up to 30% less stores stocking SPACETALK than forecasted.

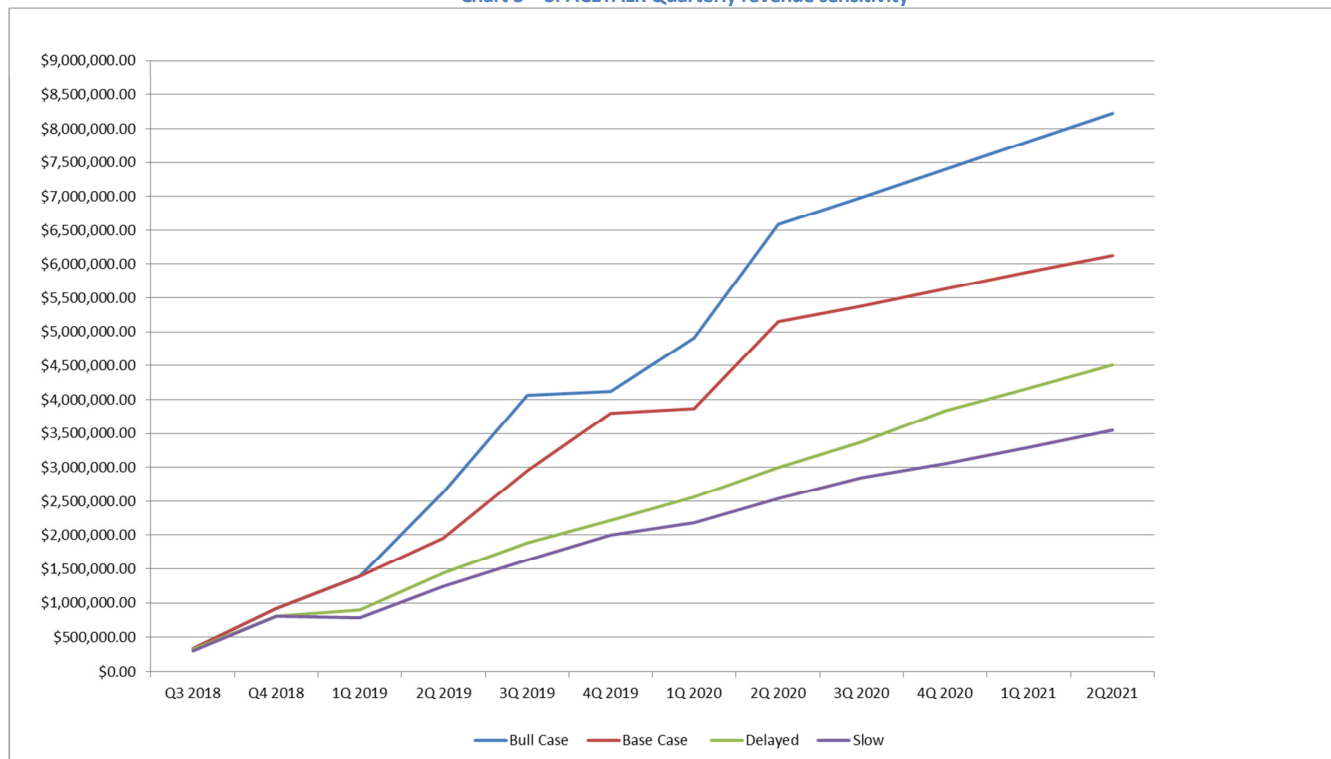
Slow Case: Assumes the same telecom and retail store rollout as the Delayed case but with lower consumer sales. We assume up to 20% lower sales rates under this estimate.

Crucially under all circumstances SPACETALK still enjoys strong revenues and attractive growth and we revert back to the view that profitability is attained after sales of 3,000 – 5,000 smartwatches annually. Under the worst case scenario, SPACETALK still reaches sales north of 15,000 in mid-2019.

Table 2 – SPACETALK sensitivity comparison

	Q3 2018	Q4 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021
Bull Case	\$ 336,888	\$ 921,662	\$ 1,387,703	\$ 2,634,445	\$ 4,059,187	\$ 4,124,493	\$ 4,914,154	\$ 6,586,407	\$ 6,985,905	\$ 7,397,404	\$ 7,808,902	\$ 8,220,400
Base Case	\$ 336,888	\$ 921,662	\$ 1,387,703	\$ 1,951,735	\$ 2,956,225	\$ 3,801,531	\$ 3,872,910	\$ 5,148,173	\$ 5,384,682	\$ 5,633,191	\$ 5,881,700	\$ 6,130,209
Delayed	\$ 324,133	\$ 812,497	\$ 902,256	\$ 1,438,005	\$ 1,888,102	\$ 2,218,690	\$ 2,563,419	\$ 3,002,003	\$ 3,379,729	\$ 3,838,555	\$ 4,168,809	\$ 4,508,490
Slow	\$ 308,191	\$ 811,554	\$ 789,714	\$ 1,239,150	\$ 1,630,105	\$ 1,994,380	\$ 2,184,312	\$ 2,539,327	\$ 2,845,656	\$ 3,057,437	\$ 3,300,418	\$ 3,549,999

Chart 5 – SPACETALK Quarterly revenue sensitivity



Other Applications and Expansion

The features of the SPACETALK watch are not applicable just to children, although the current marketing and packaging clearly is. Tracking of any loved ones or those at risk of “wandering off” or being “lost” are natural alternative markets to which SPACETALK and the AllMyTribe ecosystem can be applied. Immediately there is a demand from:

- Aged care: elderly who are still mobile but are at risk of accidents etc
- Disability/brain injury: mobile patients who have suffered brain injuries or suffering from Alzheimer’s/dementia. There have been many reported cases of such mobile patients being lost by carers. Being added to the National Disability Insurance Scheme would open the door to be used as safety monitoring/tracking/contact device.

Business Application

The application of constant contact and tracking is gaining widespread acceptance and being applied in a widespread range of industries and businesses. Tracking and monitoring technology is being applied in all forms of industries from postage to food delivery and taxi/ride share services. Tracking apps are now an accepted part of day to day life.

Many companies such as Domino’s Pizza and Uber etc have invested substantial amounts of money in applying GPS tracking technology to their operations, however many businesses are not financially positioned to invest in such technology.

The AllMyTribe ecosystem of two-way communication and GPS tracking is a very low cost way of implementing a monitoring system from one platform. Businesses with many mobile workers – sales, aged care, trade workers etc – have an economic way to keep track of staff and communicating reliably.

Valuation & Comparisons

Our experience with small-cap companies expanding into new technology categories indicate markets tend to focus completely on revenue, until sales and growth in distribution networks and news flow. This however, would be largely short sighted for MGM given that it takes a very small sales amount to enter profitability (3,000 – 5,000 smartwatches) in such a high growth category and in addition, the company enjoys recurring revenue from its AllMyTribe app. As a result we believe that MGM should trade at a higher valuation than other similar hardware only, loss making manufacturers.

Nuheara: Wireless Earbuds

We refer back to our earlier introduction of Nuheara (NUH) which listed on the ASX in March 2016. While acknowledging they are different technologies we see similarities between the two businesses given:

- Both are in the broad wearable devices category
- Both are small cap companies with NUH originally listing with a valuation of \$25 million
- Leading technology at similar price points
- Rely on combination of online and bricks & mortar retailers

Nuheara first earned revenue in April 2016 via 60-day pre-order crowdfunding campaign on indiegogo.com and during the 1H2016 sold a total of 5500 units for AUD \$1.5 million in revenue. During this period the market cap grew from \$25 million to a peak of \$60 million – representing an average revenue multiple of 33.3 times.

During the mass production ramp up the company earned no sales in 1H2017 but still commanded an average market cap of \$35-45 million. Table 3 shows the average market cap commanded by the company relative to unit sales and revenue for 2HFY2017 and 1HFY2018 and the net loss earned over the period. Funding for Nuheara operations has come from 3 capital raisings in the past 12 months raising \$18.63 million.

Table 4 compares MGM's SPACETALK/AllMyTribe division assuming the same unit sales numbers as Nuheara.

Table 3 – NUHEARA sales, revenue and valuation multiples

Nuheara Results (Actual)			Valuation Multiple			
	Units Sold	Revenue	Avg Market Cap	Net Loss	Per Unit Sold	Revenue x
2H FY2016	5500	\$ 1,500,000.00	\$ 50,000,000	-\$ 6,700,000	\$ 9,090.91	33.33
1H FY2017	0	\$ -	\$ 35,000,000	0		
2H FY2017	5242	\$ 1,898,869.00	\$ 52,300,000	-\$ 4,800,000	\$ 9,977.11	27.54
1H FY2018	7797	\$ 1,959,994.00	\$ 62,100,000	-\$ 4,260,000	\$ 7,964.60	31.68
				Average	\$ 9,010.87	30.85

Nuheara, is currently in a net loss position despite selling its wireless earbuds at an annualized base of >13,000 units. The market cap during this period amazingly equates to an average market cap per unit sold of \$9,010.82 and market cap to revenue of 30.85x.

Nuheara has been increasing its international footprint with retail distribution network including Best Buy in the USA, explaining the mild lift in revenue from 2017 to 2018 despite the significant 48.7% lift in units sold. Sales are moving from direct online to wholesale pricing.

For comparison purposes to reflect the cheap valuation of MGM, we compare the SPACETALK division based on the same number of units sold as Nuheara in Table 4 below. SPACETALK is profitable at as little as 3,000 units sold and arguably should command a higher valuation due to a lower cash burn rate and more significant leverage to unit sales uplift PLUS a recurring revenue stream and an existing business generating \$2.5 million of revenue.

Applying the equivalent revenue multiple to MGM's market cap generates an equivalent market cap of \$45.4 million or \$4.33/share, based on the equivalent number of units sold.

Considering the bricks and mortar retail expansion increased NUH sales by over 100% in the past 12 months, we would expect the same to occur for any similar retail expansion for MGM, suggesting our smartwatch forecasts are realistic for FY2018-2019 and units sold to equal or better Nuheara as per Table 4 below.

Table 4 – MGM valuation and earnings comparison based on identical Nuheara sales for SPACETALK

SPACETALK (NUH Equivalent)						
	Units Sold	Revenue	Current Market Cap	SPACETALK Net Profit	MGM Market Cap @ 30.85x	Share Price Equivalent
Period 1	5500	\$ 1,329,000.00	\$ 15,000,000.00	\$ 315,000	\$ 41,003,998	\$ 3.91
Period 2	5242	\$ 1,274,820.00	\$ 15,000,000.00	\$ 302,500	\$ 39,332,368	\$ 3.75
Period 3	7797	\$ 1,811,370.00	\$ 15,000,000.00	\$ 498,000	\$ 55,886,691	\$ 5.33
				Average	\$ 45,407,685	\$ 4.33

As MGM expects to sign a major bricks and mortar retailer by the end of June we believe that the existing Telstra franchisees (and new ones) will also look to move more aggressively in stocking SPACETALK and have final approval from Telstra head office. We would expect retailers to rapidly accelerate their store rollout in preparation for the 2018 Christmas shopping season suggesting upside risk to our 6,950 total units sold by calendar year-end 2018.

We set our price target and valuation for MGM at \$4.33 with upside risks on the successful announcement of a major retailer and expansion of its distribution agreement with Telstra franchisees. Arguably with the SPACETALK division moving to a profit so early in the sales cycle combined with the explosion of the kid's smartwatch market we believe that there remains significant upside risk to our price target and valuation. Considering the current market cap a mere \$15 million we rate MGM a STRONG BUY.

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