

SWIFT NETWORKS Pty Ltd (SW1)

Expiry date of report: 28/03/2017

EXECUTIVE SUMMARY - COMPANY SNAPSHOT

Overview

Swift Networks Group Limited (SW1) is a Perth based company which provides diversified telecommunications and digital entertainment solutions. The company provides fully integrated entertainment, data communications, network and information solutions to the resources, lifestyle, aged care and hospitality sectors.

The company was established in 2008, listing on the ASX in June 2016, via reverse takeover of Stanfield Funds Management Limited. SW1 has a market leading position in the Australian resources industry where it continues to provide the latest hardware and content as well as deploy reliable networks designed to function in harsh and remote environments. As part of its strategic plan to expand the business, the company has deployed its product into new market verticals namely hospitality, lifestyle villages and aged care facilities.

As at 30 June 2016, SW1 was providing its services to nearly 30,000 rooms, the majority of which were in the resource sector. The company has also enjoyed 97% contract retention rate and 93% of its revenue is recurring in nature, which has seen room numbers grow by 37% in 2015/16 and revenue generated \$14.42m (FY16).

In the latter half of 2016 SW1 made two strategic acquisitions which provided them with direct market access into the lifestyle villages and aged care sectors. SW1 is already established as a major reputable player in the resources sector, and as a result, in-line with strategic plans and strong relationships with key suppliers and customers, now has a strong base in lifestyle village and aged care sectors Australia wide.

Valuation

Based on the information within this report we see a potential 100%+ price increase giving a share price target of \$0.42 over the next 12 months.

Share Price: \$0.21
 Recommendation: Speculative Buy

Company address:
 1 Watts Place
 Bentley
 WA 6102
 www.swiftnetworks.com.au

Capital Structure

Shares on Issue	89.9 M
Options (unlisted)	16.3 M
Price	A\$0.21c
Market Capitalisation	A\$18.9M
Cash (30 th Dec 2016)	A\$2.7 M
Enterprise Value	A\$16.2M
Trading Range post relisting	\$0.16 to \$0.26

Directors

Carl Clump	Non-Executive Chairman
Xavier Kris	Executive Director / CEO
Paul Doropoulos	Executive Director / CFO
Mr Ryan Sofoulis	Executive Director
Mr Robert Sofoulis	Non - Executive Director

Shareholders

Top 20	59%
Director & Management	46%



	6.17F	6.18F	6/19F
Screens - end FY	39300	51800	64300
Screens - added	12800	12500	12500
Revenue	\$17.14M	\$22.33M	\$27.82M
EBITDA	\$0.53M	\$1.97M	\$3.5M
EBIT	\$0.36M	\$1.79M	\$3.33M
NPAT	\$0.25M	\$1.26M	\$2.33M
EPS - Basic	\$0.003	\$0.014	\$0.026

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SUMMARY MODEL – FINANCIAL INFORMATION

www.swiftnetworks.com.au

Company Information				Operating Model (Source: SW1 management)					
Date: as at	10/01/2017			6/16A	6/17F	6/18F	6/19F		
Share Price (Last at)	\$0.21			Resources	Screens - start	21000	26500	29600	31600
52 Week High-Low	\$0.28 - \$0.14				New rooms	8000	3100	2000	1000
Market Cap (\$m)	\$18,885,028				Screens - end	29000	29600	31600	32600
Market Cap - FD (\$m)	\$30,323,428				Revenue	14.42	15.46	16.68	17.54
Enterprise Value	\$18,885,025			Aged Care / Lifestyle	Screens - start	0	0	6200	13200
Enterprise Value – FD(\$m)	\$30,323,425				New rooms	0	6200	7000	8000
Ordinary Shares	89,928,704				Screens - end	0	6200	13200	21200
Fully Diluted Shares	144,397,275				Revenue	0	1.29	4.95	7.65
Current Cash	\$2,700,000			Hospitality	Screens - start	0	0	3500	7000
Valuation					New rooms	0	3500	3500	3500
Australia - Base case					Screens - end	0	3500	7000	10500
Forward - Target Multiple		Wgt. %	Tgt Price		Revenue	0	0.38	0.67	2.62
P/E 6/19	12x	50%	\$0.42	Total	Screens - start	21000	26500	39300	51800
Earnings	15x	50%	\$0.525		New rooms	8000	12800	12500	12500
EV/EBITDA (6/19) at price target	12x				Screens - end	29000	39300	51800	64300
EV/EBIT (6/19) at price target	18x			Recurring Revenue		12.64	14.93	20.04	25.41
12 month Target Price					Other Revenue	1.78	2.21	2.29	2.41
Upside / downside from current share price					P & L (A\$m)	6/16A	6/17F	6/18F	6/19F
					Revenue	14.42	17.14	22.33	27.82
					COGS	10.09	12.00	15.63	19.47
P / E (6/18F) at price target		x	18.40	Gross Profit		4.33	5.14	6.7	8.35
P / E (6/19F) at price target		x	12.20	Margin		30.00%	30.00%	30.00%	30.00%
Multiples (\$/price at \$)					Corporate Overheads	-4.50	-4.61	-4.73	-4.85
		6/17F	6/18F	6/19F	Growth	0%	2.39%	2.54%	2.47%
P / E (reported, basic weighted)		17.3	6.7	4.4	EBITDA	-0.17	0.53	1.97	3.50
P / E (normalised, dil. weighted)		23.8	9.2	6.1	Margin	-1%	3%	9%	13%
Capital Structure					Depreciation	-0.17	-0.17	-0.17	-0.17
			Expiry	Strike	EBIT	-0.34	0.36	1.79	3.33
Current shares on issue	89,928,704				Interest	0	0	0	0
Options	9,440,000	30/04/2018	\$0.25		PBT	-0.34	0.36	1.79	3.33
	6,933,333	20/05/2021	\$0.15		Tax	0.10	-0.11	-0.54	-1.00
Performance Shares	Class A 16,666,666				Tax Rate	30%	30%	30%	30%
	Class B 16,666,666				NPAT	-0.24	0.25	1.26	2.33
Other Shares Issued for various Acquisitions	4,761,904				EPS - basic	-0.003	0.003	0.014	0.026
					EPS - FD	-0.002	0.002	0.009	0.017
Fully Diluted	144,397,275				Cashflow Statement (A \$m)	6/16A	6/17F	6/18F	6/19F
Class A - Milestone - 44,000 rooms or \$24,000,000 Revenue					Net Operating Cash Flow	-0.07	0.25	1.26	2.33
Class B - Milestone - 53,000 rooms or \$29,000,000 Revenue					Free Cash Flow	0.3	-0.2	-0.2	-0.2
	139,562,036				Movement in Cash	3.2	0	0	0
Directors & Senior Management					Net Change in Cash	3.13	(0.35)	1.26	2.33
Name	Position	Shares Held	%		Balance Sheet (A\$m)	6/16A	6/17F	6/18F	6/19F
Carl Clump	Chairman	1,259,879	1.4%		Cash	3.20	2.85	4.11	6.44
Xavier Kris	CEO	3,580,833	3.98%		Current Assets	2.39	2.76	2.76	2.76
Paul Doropoulos	CFO	2,456,437	2.73%		Non-Current Assets	4.36	6.12	5.95	5.78
Ryan Sofoulis	NED	39,000	0.04%		Total Assets	9.95	11.73	12.82	14.97
Robert Sofoulis	NED	30,620,000	34.05%		Current Liabilities	2.91	2.91	2.91	2.91
					Non-Current Liabilities	0.91	1.90	1.90	1.90
					Total Liabilities	3.82	4.81	4.81	4.81
					Net Assets	6.13	6.92	8.01	10.16

Sources: Company Information provided by management, IRESS

BUSINESS OVERVIEW

Background

The Swift Network Group consists of Swift Networks Pty Ltd and its subsidiary Wizzie Pty Ltd. In November 2015 Stanfield Funds Management Ltd (ASX: SFN) entered into a Share Purchase Agreement to acquire all the issued capital of the Swift Networks Group for \$10m. The acquisition consisted of \$4.5m in SFN ordinary shares, \$5m in performance shares and \$500,000 cash. The acquisition was completed in May 2016, and the listed entity re-named to Swift Networks Group Limited (SW1).

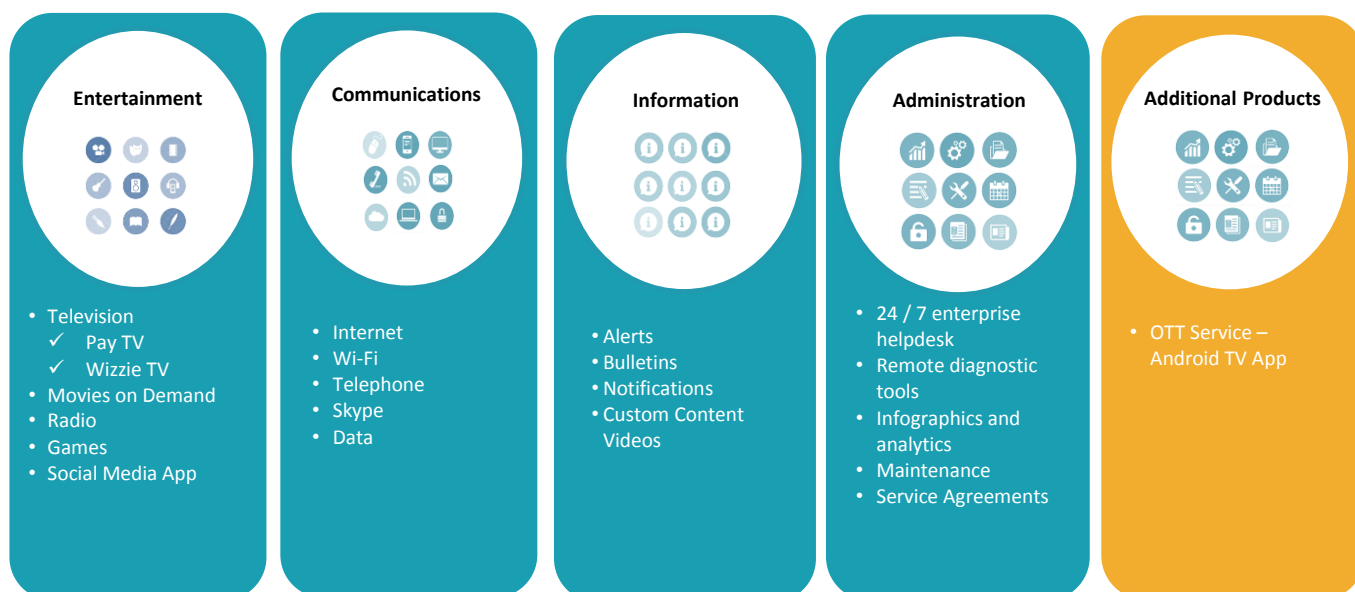
In November 2016 the Swift Networks Group acquired two new businesses – Web2TV and Living Networks, both are providers of entertainment and telecommunications services to Aged care facilities and Lifestyle villages. The completion of the acquisitions has the potential to generate \$7.1m in combined new revenue.

About Swift Networks

Swift Networks was founded in 2008 to provide digital entertainment systems to the resources sector in Western Australia. The company today is a diversified telecommunications and digital entertainment business which provides fully integrated entertainment, data communications, network and information solutions to the resources, lifestyle, aged care and hospitality sectors. This financial year SW1 obtained close to 30% market share of the resource industry across Australia, and has been working to diversify its customer base and offer digital entertainment solutions to the hospitality, lifestyle and aged care sectors.

The Product/Service

With its fully integrated content, telecommunications and information delivery system (components illustrated below) - the Swift Networks offering allows guests and residents to watch free to air TV, Pay TV, over 500 movies on demand, English Premier League and custom short form content like The QYOU, in addition to a wide variety of radio content.



Through the same easy-to-use interface and the provision of data services the system also allows guests and residents to connect and communicate via the internet, WiFi, telephone, Skype. SW1 also deploys the network which allows for information and interaction through alerts, bulletins, notifications, messaging and big data analytics.

Key Suppliers to Swift

Internet and Wi-Fi

- The company partners with Telstra and Optus and AAPT to provide internet and Wi-Fi services
- The company has acquired Living Networks who is a provider of mobile, fixed line and internet services tailored to the Lifestyle villages/Retirement Villages sector

Pay TV

- The company has an agreement with Foxtel to resell its Foxtel services at wholesale prices in Australia to the mining sector, aged care, lifestyle villages and hospitals
- The company has acquired Web2TV which delivers customisable TV services to Aged Care facilities and Lifestyle villages

Movies/Videos on Demand

- Partnership with Movielink and Video on Demand actively promote Swift's services for national and international usage
- Partnership with QYOU a video on demand and multi device platform which curates and programs web based short form video content. This is to deliver millennial focused content throughout Australia and Asia for all sectors



Key Customers

The Company's key customers are within the resources sector, and include all the major players such as Chevron (LNG Wheatstone Project), BHP, Rio Tinto, Roy Hill and Compass Group. SW1 has cemented good relationships in the resource sector, enjoying approximately 30% of the market share in this sector across Australia.

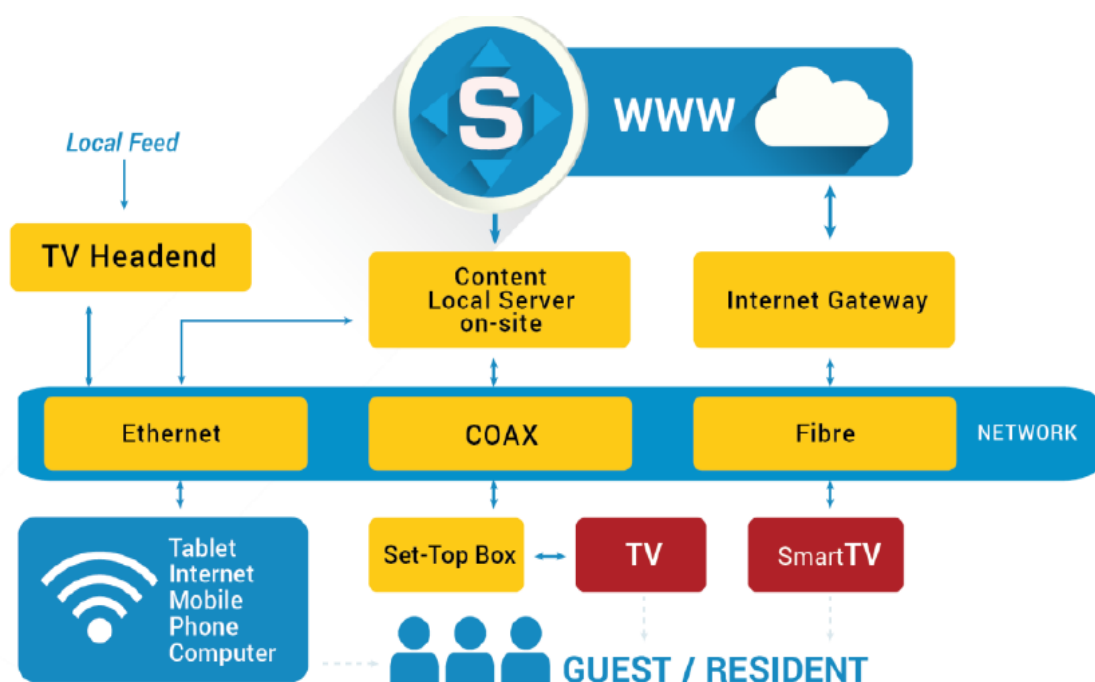
To expand into the hospitality, lifestyle villages and aged care markets the company has forged new strategic alliances and acquisitions with the above mentioned key suppliers including Optus, Freedom Internet, Web2TV and Living Networks. This has resulted in extending the company's reach in these new markets.

SW1 also reached an agreement with Optus in September 2016 to offer the 24/7 Optus Sport television channel, including the Premier League coverage, across Swift's entire customer base, providing a value-added service into the resources, hospitality, life style and aged care sectors.

The recent acquisition of Web2TV has established Swift's footprint in Victoria, New South Wales and Queensland. The acquisition of this provider of customisable TV services to aged care facilities and lifestyle has provided Swift with established relationships with 27 operators, including marquee clients like Regis and Uniting Care with 8,040 subscribers across 98 sites. This acquisition also provided Swift with exclusive advertising rights on Australia Aged Care Online which has 55,000 unique views per month.

The acquisition of Living Networks brought Swift 1,736 subscribers and expanded Swift's customer base to include 22 lifestyle villages with marquee clients such as National Lifestyle Villages and Royal Australian Air Force Association. Both acquisitions have increased Swift's core service offering to the Aged Care and Lifestyle Village Sectors and increase the likelihood of up-selling Swift's services to the acquired client base due to the broader service offering now available.

Fig. 1: SW1 – Entertainment Solution (SWIFT Middleware Server)



DIRECTORS

Carl Clump – Non-Executive Chairman

Carl Clump has experience of being the CEO of a public listed company on the London Stock Exchange, an AIM listed company, a private equity backed company and two start-ups, as well as being Group Managing Director for a Venture Capital backed entity. He holds a number of Non-Executive and advisory roles. Until July 2014, he was the Chairman of the cards and payment division of a European Private Bank.

Xavier Kris – Executive Director/CEO

Xavier Kris is an accomplished and innovative, international C-level executive with early experience as a Chief Executive and a proven track record in building global businesses and delivering results. With over 21 years' experience as a Director of service based information technology businesses in the UK, France, USA, South East Asia and Australia, Xavier specialises in providing acquisition, integration and business development services for companies seeking to expand their operations internationally.

Paul Doropoulos – Executive Director/CFO

Paul Doropoulos has approximately 21 years' combined experience in an Executive Consultant capacity to ASX listed companies in the oil and gas and mining services sectors. Further has an understanding of business fundamentals through multiple start-ups in the hospitality industry. Instrumental in overseeing the successful ASX listing of junior gold explorer Metaliko Resources Ltd in 2010 and Kinetiko Energy Limited in 2011. In addition he also held simultaneously the position of Chief Financial Officer in both companies.

Mr Robert Sofoulis – Non-Executive Director

Robert is the founder of Swift Networks and Wizzie TV. Robert has an engineering background in instrumentation and worked in the mining and oil and gas industries for 20 years before becoming an entrepreneur in 1995. Initially concentrating in the two-way radio rental business, Robert soon expanded the business to include sales and engineering services and created ASTIB Group, consisting of various radio and communications subsidiaries. Most of the ASTIB Group was divested in January 2011 for approximately \$50 million to CSE Global, a multinational organisation of the Singapore Exchange.

Mr Ryan Sofoulis – Executive Director

Ryan has spent the last 12 years working within the various companies owned by the Sofoulis family. Ryan worked in the accounts department with the ASTIB Group until it was sold in 2011, at which time he became the Company Secretary of Swift Networks. In 2012, Ryan became the Company Secretary of the newly created EITS Global Group and oversaw the establishment of an international structure spanning over the US, UK, Ireland and Australia.

The table below sets out the relevant interest of the existing Directors and proposed Directors in the Shares of the Company upon completion of the Offer.

Directors & Senior Management			
Name	Position	Shares Held	%
Carl Clump	Chairman (Non-Exec)	1,259,879	1.4%
Xavier Kris	CEO	3,580,833	3.98%
Paul Doropoulos	CFO	2,456,437	2.73%
Ryan Sofoulis	NED	39,000	0.04%
Robert Sofoulis	NED	30,620,000	34.05%

Source SW1

CAPITAL METRICS

Capital Structure

		Expiry	Strike
Current shares on issue	89,928,704		
Options	9,440,000	30/04/2018	\$ 0.25
	6,933,333	20/05/2021	\$0.15
Performance Shares	Class A		
	Class B		
Fully Diluted	16,666,666		
	16,666,666		
Other shares issued for various	139,635,371		
Acquisitions	4,761,904		
<i>Class A - Milestone - 44,000 rooms or \$24,000,000 Revenue</i>			
<i>Class B - Milestone - 53,000 rooms or \$29,000,000 Revenue</i>			

Source SW1

MAJOR SHAREHOLDERS

Top 20 Shareholders

Top 20 Shareholders (18th December 2016)

Position	Holder Name	Ordinary Shares Holding	% IC
1	SOFULIS HOLDINGS PTY LTD	30,000,000	33.36%
2	SUETONE PTY LTD	2,965,000	3.30%
3	TRI-NATION HOLDINGS PTY LTD	2,408,889	2.68%
4	JAMES FLORIAN PEARSON	2,222,223	2.47%
5	PAUL DOROPOULOS	2,128,889	2.37%
6	JOHN COLIN & SUSAN MARJORY LOOSEMORE	1,400,000	1.56%
7	OLDTUDOR HOLDINGS PTY LTD	955,969	1.06%
8	BURRWOOD INVESTMENTS PTY LTD	895,391	1.00%
9	MR GEORGE STEPHEN PEMBERTON	871,262	0.97%
10	CS FOURTH NOMINEES PTY LIMITED	863,515	0.96%
11	TRI-NATION HOLDINGS PTY LTD	825,572	0.92%
12	MR JASON PETERSON & MRS LISA PETERSON	793,887	0.88%
13	SHARIC SUPERANNUATION PTY LTD	700,000	0.78%
14	BWD ADVISORY PTE LTD	693,333	0.77%
15	GREEN MOUNTAINS INVESTMENTS LTD	640,100	0.71%
16	SKYLINE ENTERTAINMENT HOLDING LIMITED	625,000	0.70%
17	KIM WALKER	546,666	0.61%
18	J CLASS PTY LTD	500,000	0.56%
19	MR LARRY SCHREIER	420,000	0.47%
20	BOTSIS HOLDINGS PTY LTD	400,000	0.44%
Total		53,001,057	58.94%
Total issued capital - selected security class(es)		89,928,704	100.00%

Source SW1

The SW1 shareholder base is very concentrated, with the Top 20 holding close to 60% of the issued stock. Of this, Directors and Management own approximately 46% of the stock. As a result SW1 trades fairly lightly.

FINANCIALS

Operating Model

(Source: Company Information, unaudited figures)

		2016	2017	2018	2019
Resources					
Screens	Start FY	21000	26500	29600	31600
	End FY	29000	29600	31600	32600
Average Revenue / room /month		\$40.00	\$ 40.00	\$40.00	\$40.00
New Rooms					
		8000	3100	2000	1000
	Rate	\$40.00	\$35.00	\$35.00	\$35.00
	Months	8	6	6	6
	Recurring Revenue	\$10,080,000	\$12,720,000	\$14,208,000	\$15,168,000
	New room Revenue	\$2,560,000	\$652,161	\$420,749	\$210,374
	Project Revenue	\$1,780,000	\$2,090,008	\$2,059,306	\$2,164,832

Segment Revenue \$	\$14,420,000	\$15,462,169	\$16,688,055	\$17,543,206
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Aged Care / Lifestyle

Screens	Start FY	-	-	6200	13200
	End FY	-	6200	13,200	21200
Average Revenue / room /month			\$30	\$30	\$30
New Rooms					
		-	6,200	7000	8000
	Rate	\$26.00	\$26.00	\$26.00	\$26.00
	Months	8	3	6	6
	Recurring Revenue	-	\$732,000	\$3,696,018	\$6,216,018
	New Room Revenue	-	\$489,121	\$1,104,466	\$1,262,247
	Project Revenue	-	\$68,879	\$155,534	\$177,753

Segment Revenue \$	\$-	\$1,290,000	\$4,956,018	\$7,656,018
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Hospitality

Screens	Start FY	-	-	3,500	7,000
	End FY	-	3,500	7,000	10,500
Average Revenue / room /month		\$25.00	\$25.00	\$25.00	\$25.00
New Rooms					
		-	3,500	3,500	3,500
	Rate	\$22.00	\$22.00	\$22.00	\$22.00
	Months	8	4	6	6
	Recurring Revenue	-	\$37,045	\$151,006	\$2,100,000
	New Room Revenue	-	\$306,796	\$460,194	\$460,194
	Project Revenue	-	\$43,204	\$64,806	\$64,806

Segment Revenue \$	\$-	\$387,045	\$676,006	\$2,625,000
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Screens	Start	21,000	26,500	39,300	51,800
	Add	8,000	12,800	12,500	12,500
	Finish	29,000	39,300	51,800	64,300

Recurring Revenue		\$12,640,000	\$14,937,123	\$20,040,433	\$25,416,834
Other Revenue		\$1,780,000	\$2,202,091	\$2,279,646	\$2,407,391
TOTAL		\$14,420,000	\$17,139,214	\$22,320,079	\$27,824,224

INDUSTRY OVERVIEW AND OPPORTUNITY

The digital entertainment industry is well known in the residential market with Netflix, Stan, Plus7 (and other catch-up TV stations), Foxtel etc. These are well promoted brands and have created consumer awareness and demand for digital entertainment services and mediums such as smart TVs and integrated set top boxes. SW1 has capitalised on this market opportunity and taken its digital entertainment service offering to targeted resources, hospitality, lifestyle villages and aged care industry markets. Swift Networks operates in the diversified telecommunications and digital entertainment industries and is focused on closed loop, one-to-many environments and business to business sales. Swift has a comprehensive offering which can be deployed across closed loop environments where many other providers struggle.



Resources

The resource sector was traditionally the core focus for SW1 with the majority of its income generated from this sector, where it continues to experience growth due to its wide range of services and excellent market reputation. With \$3.6 million spent on research and development SW1 has developed a potential future proof solution which can withstand the demands of remote environments with 24/7 customer service support and system monitoring. The market size identified for the resource sector is 110,000 rooms, of which SW1 has obtained market entry into 29,000 rooms, through its contracts with 29 major mining companies/projects Australia wide, including the majors - Rio Tinto, Bechtel, Roy Hill and Chevron.

November 2015	SW1 completed works for Alcatel Lucent and Bechtel throughout the accommodation village at Chevron's Wheatstone project on time and to budget (2000 rooms)
June 2016	SW1 provided its services to Rio Tinto's Jerrivah Village in regional WA. The village has 420 rooms across 105 accommodation buildings
September 2016	SW1 wins multi-year contract with Compass Group to provide its services to Gateway Village in Port Hedland, which covers 800 rooms
September 2016	SW1 expanded its contract with Rio Tinto to service its Hail Creek accommodation in Queensland which consist of 1000 rooms and its Brockman 2 village in the Pilbara, Western Australia which has 600 rooms
November 2016	SW1 further expanded its services with Rio Tinto into its Amrun Village facility in north Queensland, servicing 528 rooms, offices and common areas
January 2017	SW1 wins material; contract to provide entertainment, connectivity, maintenance and support services to the INPEX operated Ichthys Project

SW1 is already a dominant player in the resources sector. However, there are still opportunities for Swift to increase revenue in this sector and gain more market share. The company is strategically focused on growth and expansion and has strategies in place to build on the relationships it has established to expand its footprint Australia wide; upsell its add on services to existing clients and leverage its strategic partnership with Optus/Telstra/Foxtel to access more opportunities within the sector.



Lifestyle and Aged Care

The lifestyle villages and aged care sector currently represents some 300,000 plus rooms in Australia, forecast to 900,000 by 2020¹. These sectors are structurally similar with a number of operators managing both lifestyle villages and aged care facilities. The sector can also be broken into profit and non-profit run operators. This sector is a major opportunity for SW1, where SW1 can offer the village or facility operators competitive wholesale prices for its digital entertainment network and communication services which can be provided to the residents by the operator, as a value-added service.

SW1 has made strategic acquisitions with existing entertainment and telecommunication providers to gain a foothold in the sector.

Major Milestones:

November
2016

The acquisition of Web2TV and Living Networks was completed, giving SW1 access to established relationships with 22 villages and 98 sites across Australia

The recent acquisitions are predicted to fast track subscriber growth and expand the company's presence in the lifestyle and aged care sectors. This is through providing a broader range of services, and increasing its value added service offering . Web2TV delivers customised TV services into the sector with over 8,000 subscribers and established relationships with 27 operators. Living Networks is a provider of telecommunication and internet services and brings with it established relationships with 22 villages in Western Australia and 1,736 subscribers. These existing subscribers and relationships provide an increased opportunity for SW1 to upsell its additional services, offering increased value for customers.



Hospitality

The hospitality sector includes hotels, motels, guest houses, resorts and serviced apartments. The market size in Australia has been estimated to be 250,000 plus rooms, this number is expected to grow as we see growth in the number of new establishments in Perth itself, as population, tourism and infrastructure expands.

¹National overview of the retirement village sector. Property Council of Australia, Grant Thornton, 2014.

The company has an agreement with Freedom Internet Australia for the resale and deployment of Swift's 'Over the Top' offer of digital content delivery to Freedom's hotel and resort clients across Australia and New Zealand

SW1 is relatively new to this sector, although via its executive management team has significant experience in the industry, the company is growing its market share through strategic partnerships such as key suppliers previously mentioned.

Major milestones:

May 2016	Swift Networks wins 'Best New Hospitality Product' at the Australian Hotels Association for its digital entertainment service offering to the hospitality sector
June 2016	The company enters into partnership with Freedom Internet Australia (Freedom Internet) to deliver digital content to Freedom's hotel and resort clients across Australia and New Zealand, including The Staywell Group and Quest Corporate Hotels New Zealand. Through this agreement Freedom Internet Freedom Internet plans to resell SW1's services to 19,000 rooms or more over 3 years, at a rate of 2,000 rooms/quarter
October 2016	SW1 announced it had gained two new hotel clients with Seashells Hospitality Group and Beachcomber Resort which total more than 500 rooms
October 2016	SW1 partnered with The QYOU to promote and distribute high quality millennial focused content from the "The QYOU" network, into the hospitality market through-out Australia and the Asia-Pacific

There is significant opportunity for SW1 to be a major player in this sector, especially with the partnerships formed with internet and content delivery partners who are already established in the sector. SW1's partnership with Foxtel, Optus and Telstra allows these operators to provide their clients with a full digital solution that neither operator can do alone. Furthermore, SW1's potential to resell the Optus Premier League via the 24/7 Optus Sport television channel to commercial customers, provides an additional attraction feature for upselling to existing clients or new clients.

We believe there is significant opportunity here to also partner with other mid-sized hotel groups in this sector to explore joint ventures to co-develop SW1's full product offering tailored specific to the hotel's requirements.

Geographic

An initial risk identified was that the majority of SW1's overall revenue came from the resources sector and was based in WA. The risk here has been the decline in investment in the mining sector and drop in value in commodities resulting in mining companies with decreased project budget. This trend is slowly changing as we see the mining sector gain more momentum and commodity prices increase in to 2017. SW1 has also announced a number of new projects in Queensland and the Northern Territory in late 2016, and has strategies in place to gain more market share.

New Markets

SW1 has also reduced its geographic risk by diversifying its target market segment expanding into the hospitality, lifestyle and aged care sectors. However, the risk in entering new markets is the ability to penetrate the market sector and the threat of new entrants/competitors entering. However, SW1 have mitigated some of this risk this by strategically partnering with similar digital content, telecommunications and internet providers already established in the sector and are using these relationships to upsell its services and establish itself as a prominent player in these new markets.

New entrants and competitors

A risk is that an internet service provider such as iiNet/Telstra/Optus or other develops a fully integrated digital service offer. There are still a considerable number of barriers to entry including the "boutique" nature of the digital entertainment industry within the resources, hospitality, lifestyle and aged care sectors, significant start-up costs, specialist hardware requirements, supplier relationships and regulatory compliance. We believe these are significant deterrents for new providers to enter the market, or even existing providers to offer a fully customised service similar to SW1.

Cost of Content

A key attribute of SW1's services is the ability to provide content at wholesale prices, an increased cost of content is a risk for SW1. However, the Company has mitigated this to some extent by negotiating content agreements that do not contain minimum subscriber specifications.

PRODUCTION / PROFIT & LOSS

Fig. 4: P & L	6/16A	2017	2018	2019
Revenue	14.42	17.14	22.33	27.82
COGS	10.09	12.00	15.63	19.47
Gross Profit	4.33	5.14	6.70	8.35
	Margin %	30%	30%	30%
Corporate Overheads	-4.5	-4.61	-4.73	-4.85
	Growth %	0%	2.39%	2.47%
EBITDA	-0.17	0.53	1.97	3.50
	Margin %	-1%	3%	13%
Depreciation	-0.17	-0.17	-0.17	-0.17
EBIT	-0.34	0.36	1.79	3.33
Interest	0.00	0.00	0.00	0.00
PBT	-0.34	0.36	1.79	3.33
Tax	0.10	-0.11	-0.54	-1.--
Tax Rate	30%	30%	30%	30%
NPAT	-0.24	0.25	1.26	2.33
EPS-basic	-\$0.003	\$0.003	\$0.014	\$0.026
EPS - FD	-\$0.002	\$0.002	\$0.009	\$0.017

Source SW1

EVALUATION AND PRICE TARGET

Fig. 5: Price Target Methodology		
Australian - base case		
	2019 - Target Multiple	Tgt. Price
P/E	12x	\$0.42
P/E	15x	\$0.525
12 month Target Price		\$0.42
Upside / downside from current share price		+100%
P / E (6/18F) at price target		15x
P / E (6/19F) at price target		8x
EV / EBITDA (6/19F) at price target		12x
EV / EBIT (6/19F) at price target		18x

Source SW1

COMPETITORS

There are a number of providers of digital television and digital entertainment services, however as per the table below there are none that provide the full range of services that operate in the resources, hospitality, and lifestyle/aged care sectors and are customisable like the SW1 product offering.

Sector	Competitor	Services Offered					Create revenue generating opportunities for customers	Easily Customisable	Deliver full suite of Premium Content via single source	Network agnostic
		TV	Movies	Internet / Wi-Fi	OTT Service	Messaging / Alerts				
Resources	Swift Networks	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Telstra Smart Camps	✓	✓	✓		✓	✓			
	UXC Connect	✓	✓	✓		✓	✓			
	R-Group	✓	✓	✓		✓	✓			
	OTOC	✓	✓	✓						
	Foxtel	✓	✓		✓					
Aged Care & Lifestyle Villages	Swift Networks	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Telstra Health	✓	✓	✓		✓				
	Optus	✓	✓	✓ (no wifi)	✓					
	Foxtel	✓	✓		✓					
Hospitality	Swift Networks	✓	✓	✓	✓	✓	✓	✓	✓	✓
	VOD		✓	✓		✓	✓			
	Docomo	✓	✓	✓		✓	✓			
	Tripleplay	✓	✓	✓		✓	✓			
	Guest Tek	✓	✓	✓		✓	✓			
	Foxtel	✓	✓		✓					

SIMPLE S.W.O.T. ANALYSIS

INTERNAL

STRENGTHS

- Has overcome barriers for entry into the sector and become a dominant player in the Resources sector
- Premium product and cheaper price offering compared to competitors when comparing like for like services
- Strong strategic relationships with suppliers and recent acquisitions will expand foothold into the Hospitality, Lifestyle and Aged Care sectors
- Flexible technology platform that can be customised and is future proofed and easily updated
- Current recurring revenues are covering the existing fixed cost base leading to future revenues being very earning accretive

WEAKNESSES

- Concentration of revenue in previous years was generated from the Resources sector based in WA
- No prior experience in Lifestyle/aged care sectors mitigated by the company engaging in strategic relationships and gaining experienced teams and strong relationships in these verticals through acquisitions

OPPORTUNITIES

- Despite the weakness outlined above the company has recently expanded its footprint in the Eastern States Resources sector
- Recent acquisitions of Web2TV and Living Networks brings with it established relationships with lifestyle village and aged care facility operators across Australia
- Australia's ageing population leading to a growing demand for lifestyle and aged care accommodation
- Upselling potential and value-add to existing clients

THREATS

- Large operators within the industry (e.g. iiNet, Foxtel etc.) with financial capacity to be more innovative than SW1 and offer full digital service
- Suppliers increase cost of content
- New entrants but mitigated by barriers to entry

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EXTERNAL

IN SUMMARY – KEY STRENGTHS

- Wide range of digital entertainment services
- Lowest priced compared to competitors for like to like services
- Access to wholesale prices from service providers
- Market reputation for being the largest provider of digital entertainment services to the resource sector since 2008
- Future proof solution which integrates with leading market technologies on a single Android platform that can be modified and upgraded to align with changing technology
- \$3.6m spent on research and development to produce a world class integrated system that can be deployed to the resources, hospitality, lifestyle and aged care sectors
- Provides 24/7 customer support
- Established strong relationships with key service providers

RECOMMENDATIONS

Based on circa 100m shares on issue, excluding any dilution from milestones shares kick in, SW1 is currently trading at a market valuation of approximately \$21,000,000 or 6x EBITDA for 2019. We think this multiple should be up around 12x-15x, implying a minimum share price of approximately \$0.42 or 100% upside from current levels. Further supporting this valuation would be a surprise to the upside of contract wins and other non-recurring revenue. Given the potential upside on information given in this report we initiate our **SPECULATIVE BUY RECOMMENDATION** with a price target of \$0.42c.

Disclosure Disclaimer Report - Prepared by Jason Peterson, a Director of CPS Capital Group Pty Ltd ("CPS")("Author"). The Author has an interest in 1,003,262 shares in SW1. Other CPS Directors and employees may hold shares in SW1 and may have an interest in and/or may earn brokerage and other benefits or advantages, either directly or indirectly from client transactions mentioned in this report, at the time that this report is dated. CPS also advises that some or all of its representatives may receive commissions as a result of effecting a transaction on behalf of a client. CPS confirms it does not hold any inside information and this report has been signed off by our day to day compliance officer. This report has been reasonably based and SW1 has assisted in its preparation by confirming facts and figures. CPS has earned fees for corporate advisory work of AUD\$60,000 & Underwriting fees of AUD\$82,810.00 (note: some of these fees may have been payable out to third parties for sub underwriting positions), over the last 24 months. SW1 paid a fee of AUD\$10,000 for the preparation of this report. Some of this fee maybe payable to third party consultants for assistance in preparing this report.

Risks—SW1 is a speculative company, as a result the company may need to raise funds in the future. Other risks involved in investing in speculative companies are low trade volumes which may result in the stock being illiquid and when you go to sell your stock there may not be sufficient volumes at the price you want.

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