

4 May 2018

EVR Holdings (EVRH.L)

United Kingdom | Media

Virtual Reality chasing Real Returns

EVR has now launched its Virtual Reality (VR) immersive music platform, MelodyVR. For an early stage business, EVR looks unusually well placed given big tech hardware partnerships, exclusive major label music deals and good content. This content can help mass market uptake of new generation VR headsets with monetisation via the MelodyVR platform. The experience is virtual, but long-term returns look real. We initiate at Buy with a PT of 23p.

- EVR is early stage so subject to execution risk, but we see an interesting position in original/live event music VR content via its MelodyVR platform.
- VR has been held back by immature technology and lack of content. New gen affordably priced VR hardware is now launching, with improved functionality. Live/immersive VR music content looks a powerful support to existing hardware and should complement new gen headset sales.
- Leveraging big tech/hardware supplier partnerships: the MelodyVR consumer-facing platform is a launch partner for the new Facebook/Oculus Go headset. We expect other hardware launches and tie-ups in due course.
- Music deals in place. EVR has signed commercial deals across the whole value chain, including the 3 major music labels, for live/near live events and has built a content catalogue of over 5000 hours with more than 600 artists.
- Monetising content via the MelodyVR platform – music fans are highly engaged and will pay for content (e.g. streaming/Spotify uptake). Live or near live content looks a high volume, premium priced but cheaper, alternative to concerts.
- We see sales upside driven by active/paying (per event initially) users – we forecast FY20E sales of £97m and assume meaningful profit in FY21E. Despite a low gross margin, we see operational leverage given modest near-term marketing needs due to social media and artist/hardware tie ups. FY17 cash was £12m and the recent placing raised £20m, suggesting EVR is well funded to breakeven.
- Valuation: Given a lack of visibility, we use probability-based DCF scenario analysis (WACC 12%/TGR 3.5%) - PT is 23p. Key variables are the VR market, MelodyVR uptake and ARPU. Our base case value is 21p/share, but if VR and penetration deliver our bull case assumptions, we see much higher value at 38p/share.

BUY

Price: 16.0p

Target: 23.0p

Forecast Total Return: 43.8%

Market Cap: £205m

EV: £185m

Average daily volume: 4.4m

Media

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Financials and valuation

Year end: 31 December

	2017A	2018E	2019E	2020E	2021E
Revenue (£m)	0.0	1.1	24.4	96.6	246.7
EBITDA (£m)	(5.2)	(10.5)	(10.5)	(4.5)	12.0
EBITA (£m)	(5.3)	(10.7)	(10.9)	(5.3)	10.9
PBT (normalised) (£m)	(6.2)	(11.8)	(12.3)	(6.8)	9.0
Net Income (normalised) (£m)	(6.2)	(11.8)	(12.3)	(6.8)	7.4
EPS (norm. cont.) – FD (p)	(0.5)	(0.8)	(0.8)	(0.5)	0.5
FCFPS - FD (p)	(0.5)	(0.8)	(0.7)	(0.2)	0.8
DPS (p)	0.0	0.0	0.0	0.0	0.0
PE (normalised) (x)	(31.1)	(19.9)	(19.6)	(35.3)	32.5
EV/sales (x)	-	163.2	7.6	1.9	0.8
EV/EBITDA (x)	(35.8)	(17.6)	(17.6)	(41.0)	15.5
FCF yield (%)	(2.8)	(4.9)	(4.5)	(1.5)	4.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company accounts/Investec Securities estimates

Price Performance



Source: FactSet

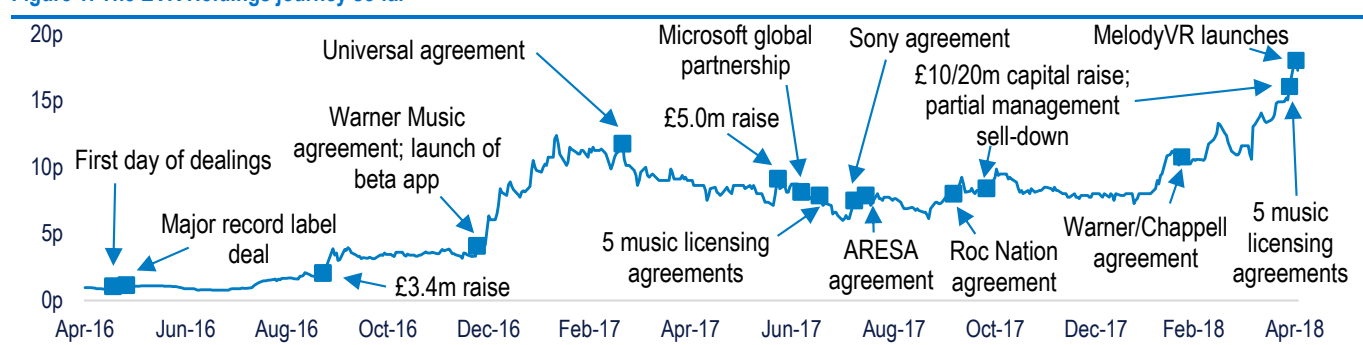
Investec acts as broker and/or advisor to EVR Holdings

Readers in all geographies please refer to important disclosures and disclaimers starting on page 37. In the United Kingdom this document is a MARKETING COMMUNICATION. It has not been prepared in accordance with the rules in the FCA Conduct of Business Sourcebook designed to promote the independence of research and is also not subject to any prohibition on dealing ahead of the dissemination of research. The global contacts include: Andrew Fitchie (EU) and Leon van Heerden (SA). Full analyst and global contact details are shown on the back page.

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Figure 1: The EVR Holdings journey so far



Source: Investec Securities estimates, Company data, Factset

Executive summary

What is VR?

- EVR focuses exclusively on consumer-based VR; an immersive experience in a simulated/artificial, but realistic computer generated 3D environment. In contrast, Augmented Reality (AR) superimposes CGI on a user's view of the world, allowing interaction with the external environment (e.g. Pokémon Go).
- VR progression has lagged initial expectations given tech/content limitations, but immersive experience is seen as a key focus for 'big tech' for human-machine interaction. New generation hardware is set to launch through 2018.

What is EVR?

- EVR looks a well-placed music VR content provider via the MelodyVR platform with an emphasis on immersive live events, e.g. concerts and sessions.
- Since formation via reverse takeover of Armstrong Ventures in April 2016, EVR has raised £38m in additional capital to fund development of its content portfolio and its newly launched MelodyVR B2C online platform.

From stealth to mass market launch

- EVR is early stage, but MelodyVR is now live as a launch partner with the new Facebook Oculus Go VR headset.
- MelodyVR services the incumbent VR headset market (c. 36m units) and the new generation of VR hardware; Oculus Go is the first of these. Go looks a new mass market driver; offering a high quality experience and better functionality at a more affordable price (\$199/£199 for the 32Gb version).

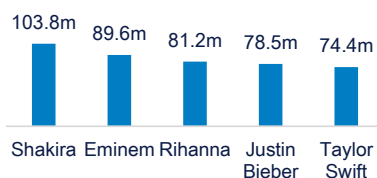
VR needs good content

- Technology and hardware innovation are VR mass market drivers, but the hardware needs good content.
- Music looks a key content category for VR headset suppliers, along with games, sports and drama. Live or near live, high quality and differentiated music content can attract large highly engaged fan bases prepared to pay. EVR's 2016 AIM listing document references Greenlight VR and Touchstone Research, suggesting 59% of respondents would 'definitely', or 'probably', be interested in VR live events, while live music events are in the top 4 experiences most wanted to be tried by 3 of 4 key age groups. Alphabet references 41m live YouTube views of the US Coachella music festival.

EVR – well placed in VR music content

- While there is execution risk, EVR has strong hardware and music relationships. This suggests an unusually well-placed new business in our view and a relatively unique investment case:

Figure 2: Key music artists: Facebook followers



Source: Fan Page List March 2018

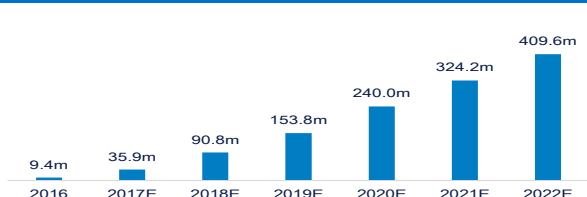
- **Live or near live VR music is 'killer content'** in our view allowing high volume, premium pricing versus physical events given: (1) Live concert limited capacity; (2) Expensive tickets (Pollstar 2017: top 100 worldwide tours cost \$85/ticket); (3) Music fans are digital-savvy/highly engaged; we see good cross-over between VR users and music lovers. Trade press suggests 13 of the top 20 most popular people on social media are music artists. 'Superfans' are a natural market.
- **A strong content catalogue in place** from launch, with deals in place to add new and live content consistently. EVR suggests a catalogue of over 5000 hours of VR live and other material from over 600 artists, with more being produced constantly. This makes MelodyVR a destination for music VR, in our view.
- **A B2C monetisation platform via MelodyVR** – the platform is now live and looks well invested (beta tested since December 2016).
- **Buy-in from major hardware manufacturers** implies near-term low cost (to EVR) opportunities for joint marketing initiatives on product launches.

- **Deals in place with music labels** – EVR has commercial deals with key global music players across the value chain, including the 3 majors (Warner, Sony and Universal); this plus numerous other deals implies effective full coverage for the UK/US markets with more to come in newer territories. We also expect strong artist buy-in for joint promotion of events. This is impressive over a short period and contrasts with protracted Spotify negotiation. EVR usually has a period of content exclusivity post release on MelodyVR, followed by joint exploitation.

VR market growth

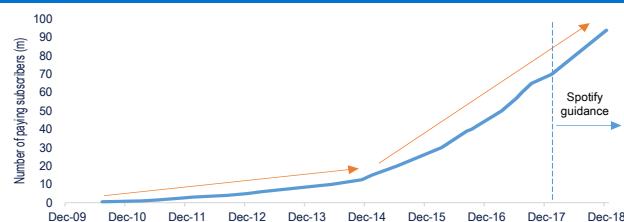
- Consumer-based VR forecasts suggest strong growth as new gen, cheaper hardware launches. AR/VR specialist, Greenlight, forecasts suggest strong global installed base growth from 36m at December 2017 to over 400m by 2022.
- VR mass market penetration has been held back given hardware and content limitations, but these new headsets with better functionality at a lower price suggest market growth should ramp up from here. Music streaming/Spotify subscriber uptake highlight the growth opportunity in music, in our view.

Figure 3: VR headset volume growth looks strong



Source: Greenlight Insights, Investec Securities research

Figure 4: Spotify paying subs – steady then exponential growth



Source: Statista

- Hardware launches are key catalysts for the adoption and evolution of VR – as technology improves, manufacturers develop better screens and resolution, better motion tracking and better interactive content at lower price points.

Table 1: Upcoming VR product launches

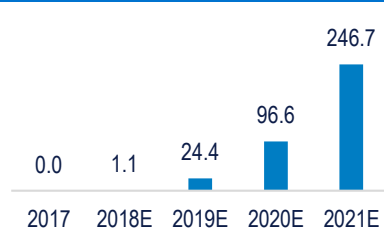
Standalone VR headset launches	Launch date	Expected price
Oculus Go	May 2018	\$199
Oculus Santa Cruz	Late 2018?	\$500?
Google Daydream - Lenovo Mirage Solo	2Q 2018	\$399
HTC Vive Focus	Later 2018	\$500-600?

Source: Fast Company, Investec Securities research

EVR Financials

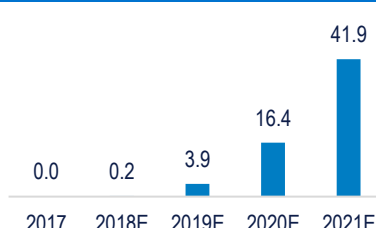
- MelodyVR has now launched. While there is lack of visibility/execution risk, we can see good revenue growth to imply meaningful profit in FY21E. We also see high operational gearing with low near-term marketing costs for a consumer facing platform given modest expected social media marketing costs and hardware/artist partnerships.

Figure 5: Sales – good growth forecast (£m)



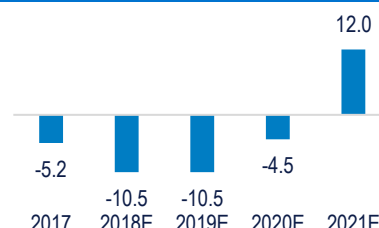
Source: Company, Investec Securities estimates

Figure 6: This drives gross profit/net sales (£m)



Source: Company, Investec Securities estimates

Figure 7: And EBITDA breakeven by 2021E

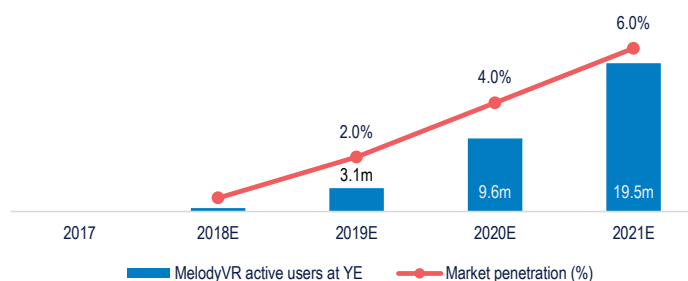


Source: Company, Investec Securities estimates

Key sales drivers

- MelodyVR active users** – EVR would look to offer (some) free content to attract ‘active users’. The target demographic is aged 16-35 and music and hardware adopters; more broad/mass market than early adopters. We see a big market from current VR headset owners and music fans, boosted by hardware partnership deals. We assume 4%/6% VR market penetration by FY20/21E or 10m/20m users – this compares to Spotify suggesting active users at 157m in 2017 (44% penetration) and its target of 200m in 2018.

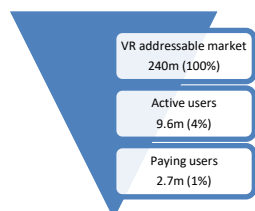
Figure 8: MelodyVR user growth assumptions



Source: Company, Investec Securities estimates

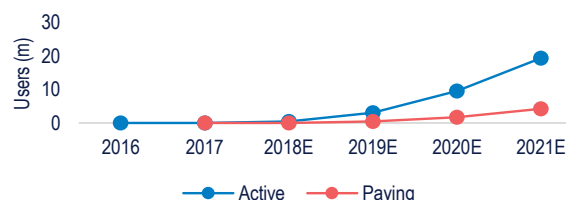
- Paying users** – we assume 25-30% of MelodyVR users convert to paying users vs Spotify at roughly 50%. This implies 2.7m/5.8m paying users by FY20/21E (1%/1.8% penetration) vs Spotify at 71m in 2017 and its 2018 target of 92-96m.

Table 2: Deriving paying user numbers (FY20E)



Source: Investec Securities estimates

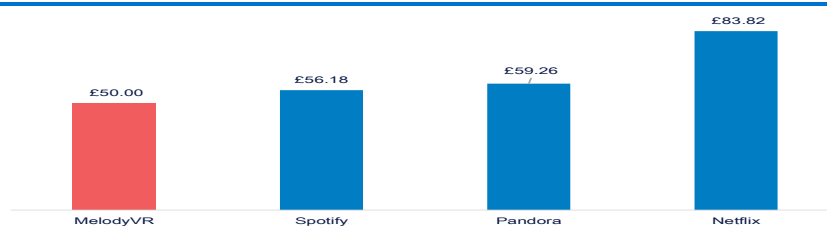
Figure 9: Active vs paying users



Source: Company, Investec Securities estimates

- Average spend (ARPU)** – we assume users pay initially on a usage/per content basis. We model ARPU at £50/year (£4/month); broadly in line with Spotify’s paying user ARPU, but well below Pandora and Netflix. We assume this figure is equivalent to 5 pieces of premium content per year.
- Longer-term ARPU upside** – ‘Superfans’ could use the service more intensely in our view, especially on launch. Longer term, VR content looks more differentiated, long play and immersive than simple audio tracks on Spotify. Arguably, this could make MelodyVR look more like Netflix, which earns a paying user ARPU of over £80. Micropayments, subscription, advertising (display and interactive) and merchandising revenue streams could also boost longer-term ARPU for MelodyVR as the offer scales.

Figure 10: We assume MelodyVR’s ARPU is well below other well-known subscription offers

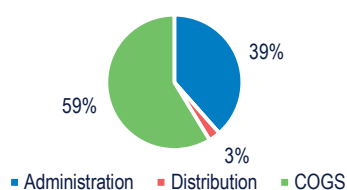


Source: Investec estimates, Company data, Music Business Worldwide. Netflix ARPU based on FY17 revenue per paid membership. Spotify ARPU based on various press reports. Pandora ARPU as reported Q3 2017.

Cost leverage should drive profit and returns

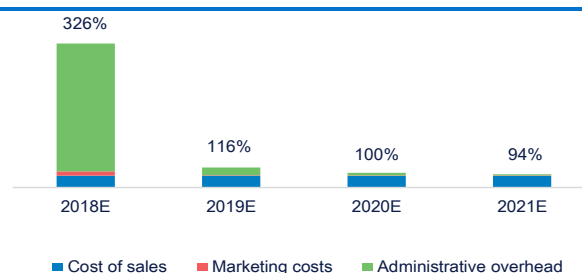
- **Gross margin:** We assume a mid-term EVR blended gross margin of 17%. This allows for pay away to platforms for app store revenues, music royalties, unique content creation and live event capture costs. For reference, Spotify FY18 guidance is gross margin at 23-25% vs 2017 at 21% and FY16 at 14% driven by renegotiated music royalty contracts and mix.
- **Marketing costs:** We forecast relatively low near-term marketing cost for a B2C platform given focus on social media engagement and artist/hardware co-marketing. We assume modest marketing costs at £0.3m in FY18E on launch, increasing in absolute terms to £4m/£8m by FY20/21E (4%/3.5% of sales).
- **Administration costs:** FY17 overhead at £5m rises to £17m by FY20E driven by headcount; we assume increases from average 30 staff at FY17 to 160 by FY21E (mostly software developers/content creation) – average salary is modelled to rise to Spotify/Netflix levels (\$125k/head).

Figure 11: Cost base breakdown (FY19E)



Source: Investec Securities estimates

Figure 12: Cost as % of sales falls with economies of scale



Source: Investec Securities estimates

Cash generative model post launch

- EVR looks well-funded with £12m net cash at FY17 and the recent £20m raise. We forecast trough net cash in FY20E with meaningful profit in FY21E.
 - We model low capital expenditure intensity given most platform development is expensed through the P&L as administrative costs, though we assume there is incremental bespoke content creation cost as the business scales (via capex then amortised via COGS).
 - Good working capital – app stores pay monthly in arrears, while payments to most of EVR's service providers should be later. This implies negative working capital and some self-funding as the business scales.

Table 3: We forecast net cash breakeven in FY21E

To Dec £' m	2017	2018E	2019E	2020E	2021E
EBITDA	-5.2	-10.5	-10.5	-4.5	12.0
WC	0.3	-0.4	0.6	2.0	4.1
Other			0.9	1.5	3.2
Tax	0.0	0.0	0.0	0.0	-1.4
Interest	0.0	0.0	-0.1	0.0	0.0
Net cash from operations	-4.9	-10.9	-9.1	-1.0	17.8
Capex	-0.6	-0.5	-1.7	-2.7	-6.2
Shares	14.2	19.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other	0.4	0	0	0	0
Net cashflow	9.1	7.6	-10.8	-3.7	11.6
Net debt/ (cash)	-12.4	-20.0	-9.2	-5.5	-17.1

Source: Company, Investec Securities estimates

Key risks

Competition in VR

- EVR referenced various VR content creation competitors in its 2016 prospectus, though did not reference direct music competitors. We believe VR competitors are more production/hardware based, with less of a content library:
 - **JauntVR** – founded in 2013, this is a producer of general VR/AR content and offers an enterprise platform (XR) for customers to distribute VR content and a library of internally produced and licensed content. Trade press suggests a series C raise of \$65m in 2015 led by Disney, Evolution Media Partners and China Media Capital – \$100m raised to that date.
 - **NextVR** – this looks to be sports VR content production and content oriented. NextVR offers a number of US sports channels via partnerships (e.g. Fox sports, CNN, NBC) with some music also (Live Nation agreement). Press reports suggest an \$80m series B raise in 2016 from Chinese VCs.
 - **Immersive Media** – this looks more of a production/360 degree camera and technology supplier, now owned by Digital Domain Holdings Ltd (a HK-based holding company with entertainment and property assets), with a stated intention to move into commercial and military applications.

Other risks

- **VR headset adoption and user experience:** VR headset adoption is uncertain and not within EVR control. While we use specialist industry forecasts predicting strong growth in the VR market, this is dependent on next generation and cheaper mass market VR headsets offering a better user experience to build on the first wave of VR headset product. Any delay in new VR headset release, disappointing product performance or lack of uptake of the product might impact industry growth and EVR forecasts. We note some industry comment that focuses more favourably on AR prospects rather than VR. We look at VR headset technology challenges in the **VR Hardware Growth Drivers** section.
- **MelodyVR adoption and monetisation:** While we see VR headset owners as hungry for content and music as a key element of such VR content, if the MelodyVR app fails to resonate with consumers or user experience is not as anticipated, it could mean MelodyVR experiences lower levels of penetration and paying subscribers vs our model.
- **Hardware risk:** MelodyVR is available to consumers through the app stores of various providers. Compatibility with various hardware providers is important for MelodyVR to access potential users.
- **Content rights agreements and copyright:** EVR must be highly sensitive to copyright, but has agreements in place with key music labels and partnerships. However, the three major record labels control the rights for the majority of the artists in the mass market. A key risk is whether EVR agreements fail to be re-signed and/or whether terms are altered materially. Deal terms are undisclosed, but we would expect music industry deals to typically be 2-3 years.

Real upside potential

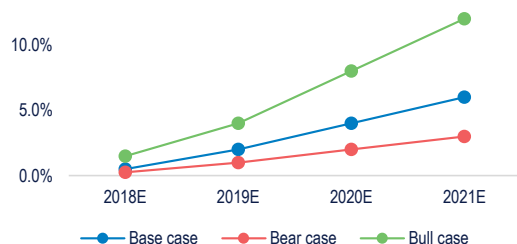
Given the lack of visibility on VR market growth and MelodyVR uptake, we value the business using probability-based DCF scenario analysis with a 23p PT. Key variables are VR market size/growth, MelodyVR penetration and average revenue per paying user. Our base case forecasts suggest attractive upside, with a valuation of 21p/share; though if VR markets and penetration deliver on our bull case assumptions, we see much higher value at 38p/share.

Valuing EVR

- Valuation is difficult at this early stage. On this basis, we need to make assumptions based on the key drivers discussed in detail later in this note:
 - The VR market – we estimate 36m VR headsets in circulation at December 2017; a big installed base, though next gen, lower price, higher performance headsets are key for enhanced functionality to optimise the MelodyVR content-led offer.
 - MelodyVR penetration – we use actual user assumptions versus Spotify (at far lower levels) with 25-30% conversion to paying users (Spotify is 50%).
 - Revenue model – we use an average revenue per user (ARPU) driver with an eye on Spotify, but with sales initially based on usage, with other revenue streams, e.g. subscription/advertising over time (within ARPU).
 - Cost ramp up pre and post launch – marketing vs overhead. Unusually for a consumer platform, we see low marketing costs as EVR can use partner hardware launches and artist tie ups to promote its brand/offering.

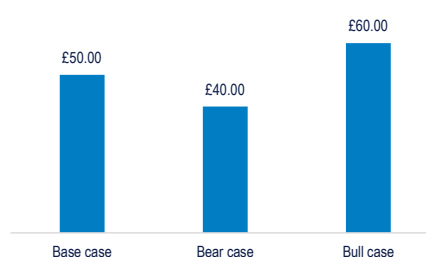
- Given the uncertainty regarding MelodyVR adoption, we use three scenarios to model the business, using DCF to value each of these and probability-weight these scenarios. Our key variables are driven by MelodyVR active user numbers/penetration, ARPU and costs:
 - **Base** – MelodyVR active user market penetration rising to 6% by FY21E. ARPU increases c. +5% a year from £50. Rapid admin cost growth at +24% to +30%/year from FY19E reflects scaling of the business to support growth.
 - **Bull** – Our most optimistic scenario assumes FY21E MelodyVR active user penetration of 12%, ARPU at over £60/year and admin costs rising c. +5-10% each year above our base case.
 - **Bear** – This assumes FY21E MelodyVR active user penetration of 3%, ARPU at £40/year with admin costs rising at +20%/year reflecting slower penetration.

Figure 13: MelodyVR market user penetration assumptions



Source: Investec Securities estimates

Figure 14: MelodyVR ARPU assumptions



Source: Investec Securities estimates

- Under our base case assumptions, we forecast EVR sales at £247m for FY21E at a 5% EBITDA margin. Our bull case scenario drives revenues significantly higher at over £500m and EBITDA well over £50m, whilst under our bear case we would imply continuing losses in FY21E.

Table 4: Comparing our valuation scenarios

Base					
£m unless stated	FY17	FY18E	FY19E	FY20E	FY21E
Revenue	0.0	1.1	24.4	96.6	246.7
Growth (%)	-	-	2048%	296%	155%
EBITDA	-5.2	-10.5	-10.5	-4.5	12.0
Margin (%)	-	-926%	-43%	-5%	5%
Bear					
£m unless stated	FY17	FY18E	FY19E	FY20E	FY21E
Revenue	0.0	0.5	9.8	38.6	98.7
Growth (%)	-	-	2048%	296%	155%
EBITDA	-5.2	-10.4	-10.7	-9.2	-3.8
Margin (%)	-	-2292%	-110%	-24%	-4%
Bull					
£m unless stated	FY17	FY18E	FY19E	FY20E	FY21E
Revenue	0.0	4.1	62.1	231.7	592.0
Growth (%)	-	-	1419%	273%	155%
EBITDA	-5.2	-10.9	-7.0	10.6	54.5
Margin (%)	-	-268%	-11%	5%	9%

Source: Investec Securities estimates

Valuing our key scenarios

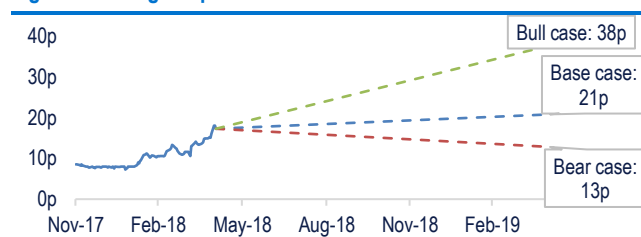
- Our DCF uses a 12% WACC/+3.5% TGR to reflect early stage risk versus growth potential. As the business becomes more proven, we would hope to see the discount rate decrease, and for the stock to re-rate versus our initial expectations. We summarise our base case DCF model in the table overleaf:
 - Base case value 21p**
 - Bull case value 38p
 - Bear case value 13p
- Applying probability weighting to the DCF model, using our base, bear and bull case assumptions, yields our target price of 23p per share:

Table 5: Target price – probability-weighted DCF

	Probability	Value (p)	Weighted value (p)
Base case	50%	20.8	10.4
Bear case	25%	12.8	3.2
Bull case	25%	37.7	9.4
Value (p)			23.0

Source: Investec Securities estimates

Figure 15: Range of potential valuation outcomes



Source: Investec Securities estimates

Table 6: Implied FY21E valuation multiples at 16p

	EV/EBITDA	P/E	FCF yield
Base case	18.5x	32.5x	4.8%
Bear case	-58.3x	-42.8x	-0.7%
Bull case	4.1x	5.6x	19.7%

Source: Investec Securities estimates

Looking at the base case in more detail

Table 7: Discounted cash flow model – base case forecasts

	2016	2017	2018E	2019E	2020E	2021E	2022E
Revenue	0.0	0.0	1.1	24.4	96.6	246.7	513.4
EBITA adj.	-1.7	-5.3	-10.7	-10.9	-5.3	10.9	42.7
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	-17.0%	-17.0%
NOPAT	-1.7	-5.3	-10.7	-10.9	-5.3	9.0	35.5
Depreciation & amortisation	0.1	0.1	0.2	0.4	0.7	1.1	1.4
Other non-cash charges							
Capital expenditure	-0.2	-0.6	-0.5	-1.7	-2.7	-6.2	-12.8
Working capital investment	0.0	0.3	-0.4	1.5	3.5	7.3	14.2
Free cash flow to the firm	-1.8	-5.5	-11.4	-10.8	-3.7	11.3	38.3
Growth (%)		195.1%	109.2%	-5.7%	-65.8%	-407.2%	238.6%
Timing factor			0.67	1.67	2.67	3.67	4.67
Discount factor			0.93	0.83	0.74	0.66	0.59
Discounted FCF			-10.6	-8.9	-2.7	7.5	22.6

Source: Investec Securities estimates

Table 8: DCF base valuation workings

Cost of capital	12.0%
Long-term growth rate	3.5%
Exit multiple (EV/EBITDA)	10.6x
Terminal value £' m	466.0
Discounted terminal value £' m	274.6
Present value of cash flows £' m	7.8
Firm value £' m	282.4
FY17 Net debt/(cash), other £' m	-31.4
Equity value £' m	313.8
FD shares outstanding mn	1,509
Fair value (p)	20.8

Source: Investec Securities estimates

Figure 16: Valuation sensitivity (p) to discount rate and long-term growth assumptions

		Discount rate				
		11.0%	11.5%	12.0%	12.5%	13.0%
Long-term growth	4.5%	26.6	24.9	23.4	22.1	21.0
	4.0%	24.8	23.3	22.0	20.9	19.9
	3.5%	23.2	21.9	20.8	19.8	18.9
	3.0%	21.8	20.7	19.7	18.8	18.0
	2.5%	20.6	19.6	18.7	17.9	17.2
	2.0%	19.4	18.4	17.5	16.7	16.0

Source: Investec Securities estimates

Library valuation?

- We have limited specific information on the library currently, but EVR has built a VR music rights catalogue of over 5000 hours (600 plus artists); this will continue to grow with new events and as EVR creates further bespoke content itself. This sounds like a lot of content, but as importantly, given the deals signed with key global music labels, it should also be high quality in terms of 'A' list artists as well as newer/niche talent. VR rights are exclusive to EVR for a year post initial release on MelodyVR, then that specific content is shared with the labels. While we think EVR is likely to leverage this content library long term, given the early stage nature of the business model, we only use 'normal' P&L assumptions for valuation purposes for now.

Sense-checking our valuation methodology

- Our target price is backed up by discounted multiples-based valuation. The European Internet Software/Services peer group as per Factset trades on a CY18E EV/EBITDA of 13.1x – if we apply this multiple to EVR's FY22E EBITDA, and discount the resulting enterprise value back to present day, we can derive a fair value of 26.5p. We view this as offering good support to our probability-weighted DCF model.

Table 9: Multiples-based valuation

European Internet Software/Services 2018 EV/EBITDA	13.1x
Implied EVRH enterprise value	£579.1m
Discount rate	12.0%
Discounted EV	£368.0m
Net debt/(cash) - FY17 + placing	-£31.4m
Market cap	£399.5m
Value per share	26.5p

Source: Investec Securities estimates, Factset

VR needs content

VR technology has had its ups and downs. We see technology and hardware innovation as key to drive growth from here. However, for long-term mass market penetration of VR headsets, content is just as important in our view. A constantly refreshing, high quality differentiated immersive music offering can attract large, highly engaged fan bases, prepared to pay for content.

Hardware needs content

- We comment on VR technology-based product innovation later in this note. However, content is also key – immersive music can help drive market VR penetration along with sports, games, theatre and film.
- What is MelodyVR content? It is difficult to bring the offer alive on paper and without a VR headset, but the link below clicks through to a basic video that summarises the theory behind the immersive music offering with views from different places around the live act; from on stage to across the audience.

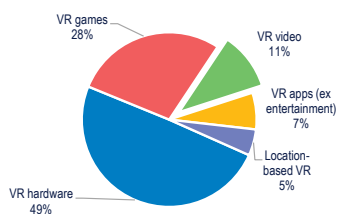
Figure 17: MelodyVR – how it works. [Click on image to play](#)



Source: Company, YouTube

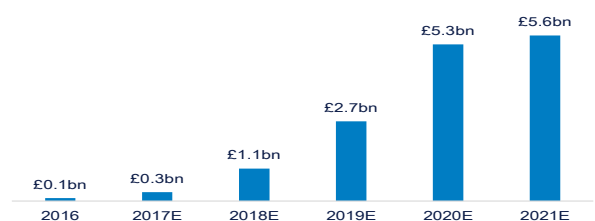
- Digi-Capital expects revenues generated by VR video to grow from \$0.1bn in 2016 to \$5.6bn by 2021. EVR's MelodyVR platform should be a key beneficiary of this growth.
 - In its 2016 AIM listing documents, EVR quotes a 2015 Greenlight VR and Touchstone Research survey/report suggesting 59% of respondents would 'definitely', or 'probably', be interested in experiencing a VR live event.
 - The survey also put live music events in the top 4 experiences most wanted to be tried by 3 of 4 age group categories surveyed.

Figure 18: VR revenue forecasts (2018) by sector



Source: Digi-Capital

Figure 19: VR video revenues set to grow



Source: Digi-Capital

VR live music adds something special

- We see live or near live VR music as a key new content category that can be premium priced, but allow high volume sales versus actual events, given the lack of physical limitations.
- We see three key drivers to live music demand for MelodyVR:
 - 1 **Live concerts sell out fast given high demand from ‘superfans’** with tickets often sold out in minutes, even from expensive 3rd party ticketing sites.
 - 2 **Ticket expense.** Pollstar 2017 data shows average ticket prices for the top 100 worldwide tours +5% to a material \$85 (£61). This prices out many fans.
 - 3 **Music fans are digital-savvy and highly engaged.** The market for music is vast, and we see significant cross-over between VR users and music lovers. Alphabet references 41m live YouTube views for the US Coachella music festival. Trade press suggests thirteen of the top twenty most popular people on social media are music artists. Shakira has over 150m Facebook/Twitter followers; Justin Bieber has 184m. We could use this as a secondary way to size the potential market opportunity for music VR – identifying ‘superfans’ likely to consume VR content relating to their favourite artists. We note that EVR has agreements in place for VR rights for all of these top 13 artists.

Table 10: Key music artists on social media

	Facebook fans	Twitter followers	Total
Shakira (Roc Nation/Sony)	103.8	50.8	154.6
Eminem (Shady/Universal)	89.6	22.5	112.1
Rihanna (Roc Nation/Sony)	81.2	86.1	167.3
Justin Bieber (Universal)	78.5	105.3	183.8
Taylor Swift (Big Machine/Universal)	74.4	85.7	160.1
Katy Perry (Capital/Universal)	69.2	108.4	177.6
Adele (XL/Sony)	65.2	28.9	94.1
Beyoncé (Sony)	63.8	17.2	81.0
Linkin Park (Warner)	62.0	6.5	68.5
Selena Gomez (Interscope/Universal)	61.8	56.2	118.0
Total			1,317.1

Source: Fan Page List

EVR – well placed in VR music content

We believe EVR has impressively strong relationships in both hardware and content. This, plus a ready-made catalogue, constantly refreshed new content and a monetisation platform, suggest an unusually well-placed new business in our view, and a relatively unique investment case.

- EVR looks unusually well placed in VR music content, making it an attractive partner in the space with strong barriers to entry:
 - **Buy-in from major hardware manufacturers** implies low near-term costs for EVR joint marketing initiatives on hardware launches. Oculus Go as a launch partner, is a strong validation by Facebook in our view, and we see more hardware suppliers aligning with MelodyVR.
 - **Deals in place with major music labels** – EVR has signed deals with key global music players. This is not a simple task, especially as content is often live or experience based, implying even more rights to be cleared. Appendix 1 highlights the number of agreements required to capture content and monetise this; from songwriters, artists, labels and venues.
 - **A strong content catalogue in place** for day one of launch with deals in place to add new and live content consistently.
 - **A monetisation platform via MelodyVR** able to service existing VR headsets and the next generation of hardware products.

EVR – exclusive music deals

- **Music deals look a key USP and barrier to entry.** Licences, partnerships and permission to film/exploit music and live content is complex and time consuming given the number of interests within the value chain. Since the 2016 listing, EVR has signed numerous major licensing agreements (see Appendix 1).
- **EVR now has multi-year deals in place with the three major global record labels: Warner, Sony and Universal; these plus other label deals suggest full coverage of EVR target music markets.**
 - Precise terms are under NDAs but, within these agreements, MelodyVR has the right to create and distribute content initially exclusive to the MelodyVR app, followed by a period of joint exploitation by both parties.
 - The period of exclusivity is applicable to individual pieces of content on MelodyVR release rather than the entire library.
 - Other significant label deals include Jay-Z's Roc Nation.
 - Deal terms are undisclosed, but we would expect music industry deals to typically be 2-3 years.
- **The majors share in the success of EVR;** post deals, each major label group owns EVR warrants (equivalent to 43.2m shares each). This is similar to Spotify deals post its own protracted negotiations. Full major label exercise would add c. £13m additional cash to EVR, though we already include warrants in our FD share count.

Table 11: Outstanding warrants

	No. of shares	Exercise price	Last date to exercise
Sony Music Entertainment	43.2m	14.20p	17-Jul-22
Universal Music Group	43.2m	12.38p	20-Mar-22
Warner Music	43.2m	4.25p	22-Dec-21
Other warrants (board/advisors/etc)	97.0m	Various	Various
Total	226.7m		

Source: Company

- We show a selection of key artists for the major record labels below. We have left out many big names (apologies for any sensitivities here), so this is really a summary to highlight the sheer strength and depth of artists under EVR's agreements:

Table 12: Selected key artists for major labels

Universal	Sony	Warner	Roc Nation
Taylor Swift	Adele	Ed Sheeran	Jay-Z
Sam Smith	Zayn	Stormzy	Rihanna
Lamar	Beyonce	Linkin Park	J. Cole
Maroon 5	Chainsmokers	Jason Derulo	Big Sean
Ariana Grande	Justin Timberlake	Coldplay	Meek Mill
Eminem	Pink	Madonna	DJ Khaled
Drake	Camilla Cabello	David Guetta	Shakira
Lorde	DJ Khaled	Eric Clapton	
Katy Perry	Meghan Trainor	Green Day	
Lana Del Ray	Rag'N'Bone Man	Gorillaz	
Emili Sande	Little Mix	Rita Ora	
	One Direction		

Source: Investec Securities research

- Since the 2016 listing, EVR has announced a number of important licensing agreements with music labels and publishers:

Table 13: Key licensing agreements

Deal	Date	Comments
'Major record label'	May-16	Agreement for 'VR Experiences' feature a well-known artist with a recent top 3 album release for 12M exclusive period post MelodyVR launch. 'Over a dozen' VR experiences are referenced.
Warner Music	Dec-16	Content creation/distribution agreement (Dec 2016) – VR creation and distribution for an exclusive period; then joint exploitation.
Universal Music	Mar-17	Multi-year agreement – labels include Capitol Records, Decca, Def Jam, EMI, Interscope, Island, Polydor, Republic and Virgin EMI. VR creation and distribution – initially on MelodyVR then joint exploitation.
Sony Music	Jul-17	Multi-year agreement to license VR content – right to produce and distribute Sony artist VR content, available initially on MelodyVR; then joint exploitation.
Licensing deals	Aug-17	Songwriter rights – with European rights holders for VR, including UK/PRS as well as other territories, e.g. Sweden, Greece, Belgium.
ARES/BMG Rights Agreement	Aug-17	Songwriter rights – Anglo-American and European rights catalogue including Chrysalis, Bug, BMG, Cherry Lane, Famous, Virgin, Stage Three and Evergreen. Artists include Adele, Aerosmith, The Black Eyed Peas, Black Sabbath, Blondie, Bruno Mars, David Bowie, Duffy, John Legend, Kelly Clarkson, Kings of Leon, Nirvana, One Direction, The Rolling Stones, Bryan Adams and Take That.
Roc Nation	Oct-17	Recorded and publishing rights agreements – JAY-Z Entertainment; artists represented include DJ Khaled, Kaskade, Rihanna, Romeo Santos and Shakira.
Record label and music publisher deals	Apr-17	Five new multi-year agreements: 1.) Kobalt (US) and AMRA – for publishing deal for songwriter/artist rights (incl.s Gwen Stefani, Rudimental); 2.) Cooking Vinyl – record label agreement (incl.s Alison Moyet, Groove Amada, Madness); 3.) Red Bull records – record label deal (incl.s AWOLNATION, Black & Gold); 4.) AKM (Austria) – publishing agreement for composers/music publishers; 5.) Hospital Records – record label deal.

Source: Investec Securities research

Content library built and constantly refreshed

- **EVR has created/developed over 5000 hours of library content featuring over 600 artists.** The key here is the relative importance of artists – deals signed with major labels highlight access to high profile artists as well as more niche performers. This library will be constantly refreshed with new live events/experiences:
 - We assume MelodyVR launches with a mix of free and paid for content pieces (50-60 assumed) by major artists and aims to add further content over the next 12 months to build awareness and momentum.
 - Featured artists on the launch page include Bebe Rexha, The Chainsmokers, Fall Out Boy, J Balvin and The Script.
 - We think this is a good strategy to ensure maximum exposure and continued interest post launch.
 - The MelodyVR Instagram feed has a modest c. 2000 followers, but this should build materially post launch. We looked at 20 recent posts featuring concerts, giving a flavour for the current content it will have captured. We also include featured artist Instagram followers as a scale for fan bases:

Table 14: Selected recent MelodyVR Instagram posts of artist led concerts

Artist	Instagram followers	Artist	Instagram followers
Sigrid	174k	Bebe Rexha	4.3m
Vance Joy	395k	Miguel	2m
Fetty Wap	5.5m	Blake Shelton	2.2m
The Chainsmokers	5.4m	Bloc Party	29.7k
The Script	522k	Niall Horan	40.3m
Poppy	742k	Franz Ferdinand	124k
The Moon Band	278k	Madness	22k
J Balvin	21.1m	Megadeth	1.1m
Rag'N'Bone Man	189k	Cypress Hill	1.2m
Alice Cooper	568k	2 Cellos	337k

Source: Instagram

- From a technical perspective, the library has been built using EVR's in-house end-to-end VR content production and tech capability, allowing aggregation of fully cleared rights for that content:
 - **Content capture.** EVR has used in-house capability and commercially available hardware to develop and use 360 degree cameras to capture 4K video content. Cameras are set up in various locations within a venue.
 - **Audio is binaural** and works with head tracking technology in VR devices – in other words, it sounds different depending on where you are “positioned” in the room and in which direction you are facing.
 - **Content purposing.** EVR post production workflow tools process 360 degree panoramic content into VR material. This allows users viewing the content via their headset to move around the venue and view the event from various different places such as on the stage, or in the front row of the crowd.

- The content available on the MelodyVR is likely to split broadly into three categories:
 - **Recorded music:** concerts and events filmed by the MelodyVR team and uploaded to the platform for viewing. Content includes festivals and single performances from individual artists, high profile major artist stadium performances, underground clubs and ‘secret gigs’.
 - **Live streams:** a variety of live events viewed in real time; a big potential earnings stream, in our view. On launch, EVR said it would look to feature one key major artist driven concert per month, with numbers rising gradually over the first year to a minimum of 4 per month as volumes increase.
 - **Interactive, often unique, experiences:** backstage access, interviews with artists, private concerts performed in interesting/unique locations. This looks an important area of differentiation for MelodyVR over time as content is created – we assume spend on unique content increases to £5m in FY21E.

- **A key positive for the content offering is that new material can be added constantly as new events and experiences are captured.** The table below shows top artist concerts/festival appearances planned for this year that EVR can capture – close to 180, though roughly 50 are yet to be confirmed. Just on confirmed events, this suggests a material c. 10 new pieces of premium concert/live event content per month on average, not including other EVR immersive experiences that will also be added though the period:

Table 15: 2018 number of live events by key artists worldwide

	Festivals	Europe	US	World	TBC	Total	Examples
Top tier artists	7	4	11	5	9	36	Bruno Mars, Chris Brown, David Guetta, Imagine Dragons, Justin Timberlake, Sam Smith
Other global artists	12	15	19	15	34	95	Britney Spears, Bon Jovi, Foo Fighters, Metallica
Other top artists	10	6	15	4	10	45	G-Easy, Travis Scott, Arctic Monkeys, Train, Bryan Adams

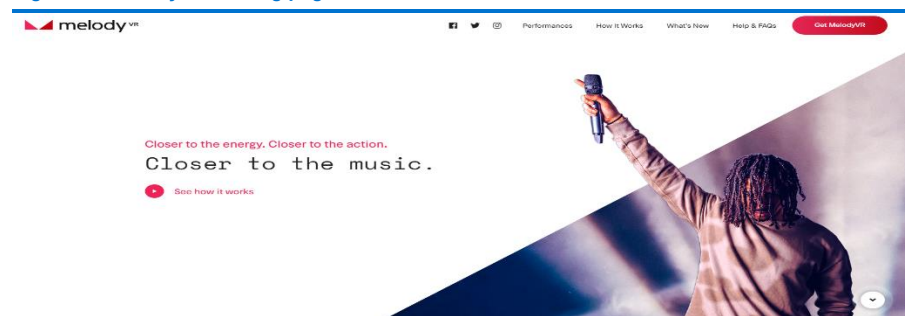
Source: Company

- We struggle to value the content library currently as the platform is yet to generate meaningful sales. As we see how content is consumed/monetised, we think the library valuation could become a part of the investment thesis (especially uniquely created content by EVR), and a further validation of the equity value of the group. We note the library is likely to consistently grow as new events take place and are captured by EVR.

MelodyVR – a platform to drive monetisation

- **MelodyVR launched alongside Oculus Go at the F8 Facebook Developer Conference on 1 May 2018.** The MelodyVR app/platform has been in beta phase since December 2016 while EVR has optimised the consumer experience across hardware and operating systems and built out the content library.
- MelodyVR is the online B2C platform to monetise EVR's music content library.
 - The MelodyVR app is free to download from the app stores.
 - MelodyVR can also be bundled/pre-installed on headsets in a similar way to gaming console bundles.
 - MelodyVR is accessed via hardware device ID data (allowed within T&Cs); limiting initial requirement for app level log-in and registration, though the app can also be downloaded to mobile phones.

Figure 20: MelodyVR landing page



Source: Company

- **We expect strong support from hardware suppliers, especially on new product launches.**
 - MelodyVR immersive music should give new differentiated quality content for the new generation of headsets (e.g. Oculus Go) and also existing VR hardware including Oculus Rift, PlayStation VR, HTC VIVE, Samsung Gear VR as well as iOS and Android. We also note the Microsoft Windows agreement to make the app available to all Windows 10 users (500m in total, according to EVR).
 - Launch focuses on Oculus Go and Samsung Gear VR with other hardware support likely to appear shortly plus an iOS app for consumers wanting to look at the product but with no headset.
- **Initial launch is in UK and North America.** We estimate that these together account for half of the addressable VR market in revenue terms. Additional territories are likely to roll out more aggressively post the recent new £20m raise; we assume Asia (with South Korea, China, Taiwan and Japan as suggested focus territories) and Latam are interesting target regions.
- **MelodyVR target markets.** We see a mass market opportunity beyond the narrower band of early adopters. This is a key reason why EVR has delayed platform launch to coincide with cheaper, mass market, but higher quality headsets over this year.
 - MelodyVR target market – we believe MelodyVR is likely to target music adopters (younger/experience-based, highly engaged fan base) and hardware adopters (keen to experience new tech).

- MelodyVR target age demographic – we assume a target age range of 16-35. This should be a relatively attractive demographic that is highly engaged in music and willing to pay for new/differentiated content.
- **Payment model. We assume initial monetisation through in-app purchases for individual pieces of content, e.g. a specific concert/festival or artist offering.**
 - EVR plans to drive volume of users with a free app and content, then convert these to paying users for specific tracks (e.g. 99p) up to whole concerts/events (e.g. £10.99) via premium content consumption.
 - We see a lot of content to monetise. EVR has built up over 5000 hours of catalogue live events and will add more consistently. Fans should not be short of material to buy and watch.
 - New content added constantly. We expect a tiered launch with modest content released initially as volumes build on launch. We assume one top tier artist new/live event per month initially, increasing as audience builds towards 4 per month after 12 months, implying one per week.
 - Live events. This could offer important customer acquisition and monetisation too, while unique EVR created content should drive further consumer interest.
- We believe other revenue opportunities should evolve over time:
 - **Micropayments.** MelodyVR could push for incremental upsell at the micro payment level – examples might be new camera angles of ‘private’ content such as backstage parties.
 - **Subscription model.** EVR may look to introduce a subscription model in certain territories as data builds over usage and revenue per user. This could resonate well with dedicated music lovers or ‘Superfans’ – if MelodyVR can evolve such a subscription model more in line with other content streaming services such as Netflix and Spotify, this should represent potential upside in the long run, as subscription models tend to drive greater spend than a la carte menu pricing and possibly a higher rating on profits.
 - **Advertising.** We can also see advertising revenues begin to feature as site traffic and the user base builds. An interesting angle could be interactive advertising using the VR platform and data based on music history/tastes. The recent fund raise referenced this as an area for group investment.
 - **E-commerce.** We assume MelodyVR could act as a selling platform for both physical and digital data as it scales, whether with partners or in-house.

Figure 21: MelodyVR artist feature page



Source: Company

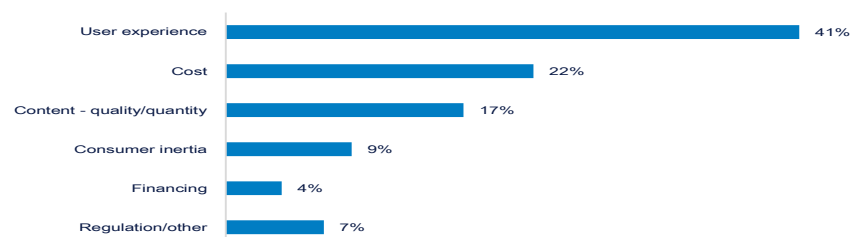
Virtual to Reality

VR should grow strongly from here as new hardware launches provide higher quality user experience and functionality. VR/AR can also in turn provide a useful push factor for the handset and/or hardware upgrade cycle.

VR: a big, growth market

- Virtual reality (VR) and immersive experience is a key focus for 'big tech' as virtual and augmented reality looks a next step in human-machine interaction.
- **What is the difference between Augmented and Virtual Reality?** We need to distinguish these; models may converge longer term but they are different:
 - **Augmented Reality (AR)** superimposes a computer generated image on a user's view of the world allowing interaction in new ways with the external environment. Examples would be Google Glass and, more successfully, Pokémon Go from a usage perspective and Magic Leap from a capital raising perspective. Forecasters see AR as earlier in its development compared with VR, with a number of mass market consumer and enterprise-based applications.
 - **Virtual Reality (VR)** is a more immersive experience in a simulated/artificial, but realistic 3D environment. Sensory stimuli (e.g. sights and sounds) are computer generated, but user action partially determines the environment.
- **MelodyVR operates within the consumer VR market.** Therefore, our market forecasts focus on VR and we exclude Augmented Reality from numbers. We also focus on consumer facing forecasts, not commercial applications.
- **Hardware drivers.** We look at this in a lot more detail below, but our key message is that VR growth is driven by hardware. This is still a quite immature technology – Oculus Rift was arguably at the vanguard of things. It was funded by a \$2.4m Kickstarter campaign in 2012, and subsequently sold to Facebook for \$3bn in 2016. Google launched its own (cheap and basic), Cardboard range in 2014 to drive VR app downloads, with Samsung's Gear VR (Oculus tech based), HTC and Sony all entering the market after this.
- **VR mixed press to date.** While VR as a concept is exciting, we believe mass market consumer adoption has been held back by hardware usability and high price points plus limited higher quality content. This is backed by a Perkins Coie Jan 2018 survey as below:

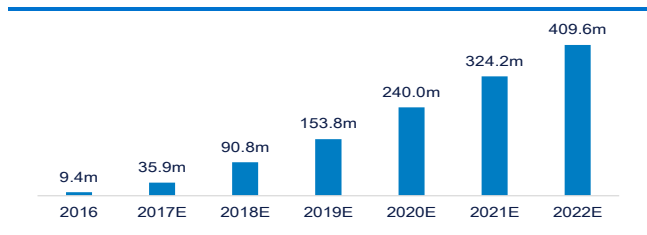
Figure 22: VR – primary obstacle to mass market adoption



Source: Perkins Coie

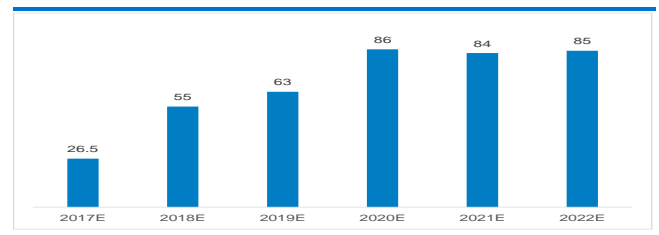
- Despite these drawbacks, we still estimate a material installed base of VR headsets at c. 36m at December 2017. We believe new hardware goes some way to answering these questions with growth set to ramp upwards as next gen product launches at more attractive price points, e.g. Oculus Go at \$199 vs Oculus Rift launch cost at \$599 (now \$399) with the Touch hardware (optional but an important component) originally priced at \$199. Better content is likely to follow better experience and hardware take-up, with EVR's MelodyVR launch arguably a key case in point.
- **VR market forecasts suggest strong growth.** Our market forecasts are based on Greenlight Insight modelling, a California-based AR/VR specialist.
 - As below, Greenlight forecasts suggest strong installed base growth of over 400m by CY22 (CAGR +160%) from a base of 36m units at Dec 2017.
 - We show hardware unit roll out below, highlighting good growth in 2017 with a big further boost in 2018 as next gen hardware appears. 2019 looks more of a consolidation as these headsets ship across the market, with a further leg up in 2020 with more mainstream oriented product launches:

Figure 23: Rapid growth in the VR headset installed base (mn)



Source: Greenlight Insights, Investec Securities estimates

Figure 24: VR headset growth yoy (volume mn)

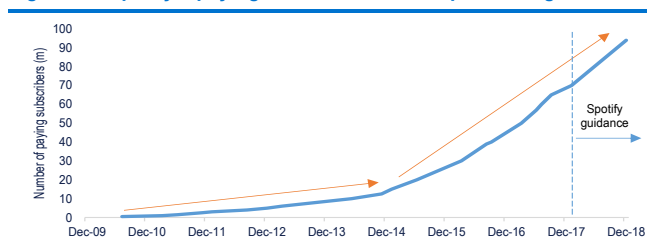


Source: Greenlight Insights, Investec Securities estimates

Music streaming as a pointer for market growth

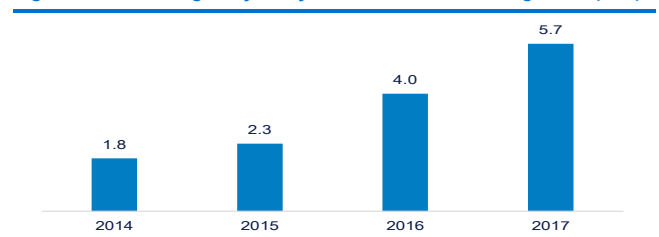
- While music streaming is software led, we believe development/uptake can be used as a pointer to how the VR market can develop from a niche/early adopter led service to mass market.
 - The concept of streaming music (all-you-can-eat access) was revolutionary and took significant time to gain consumer traction with single digit millions of Spotify paying users to the start of 2014. From a US perspective, total music streaming sales were only \$1.4bn in 2014 (c. ¼ of total US music revenues), according to the Recording Industry Association of America (RIAA).
 - Music streaming is now increasingly ubiquitous, with a total active user base quoted by Spotify at 159m worldwide monthly active users – we assume closer to 70m paying users now. Latest 2017 RIAA US streaming sales are \$5.7bn, which is 65% of the overall market.

Figure 25: Spotify's paying subscriber base: exponential growth...



Source: Statista

Figure 26: ...and arguably a key driver for US streaming sales (\$bn)



Source: RIAA

Where is VR in the growth curve?

- To help think about where we are in terms of market development and how growth might develop, we look at Rogers' innovation adoption curve below. This theory splits end market participants into buckets depending on where in the lifecycle of a product/technology it is adopted by:
 - 1 Innovators
 - 2 Early adopters
 - 3 Early majority
 - 4 Late majority
 - 5 Laggards

- The Rogers model helps us think about how new technology can diffuse through markets over time – innovators typically represent 2.5% of the market; early adopters 13.5%, etc. as adoption/market share increases towards 100%. The charts below illustrate this theory with the left-hand chart showing groups of consumers adopting new technology and the right-hand chart illustrating market share moving towards 100% over time through consumer groups.

Figure 27: Technology adoption life cycle

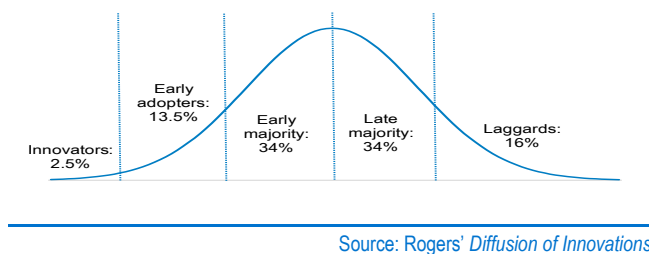
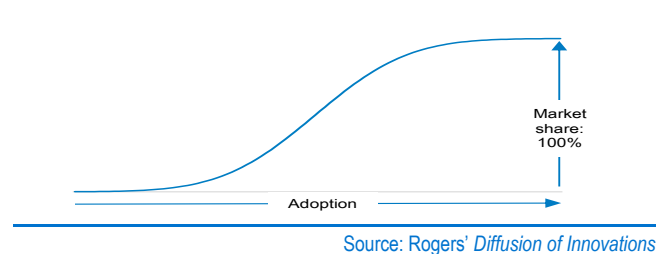


Figure 28: Technology adoption life cycle



- If we work backwards and look at the current installed base of VR headsets as a percentage of the Greenlight Insights 2022 forecast for c. 410m headsets and assume this is 'peak', our year-end 2017 VR headset market number (36m) would be at 9% against that peak. The Rogers model would therefore suggest we are still in the 'early adopters' phase. In theory, this could still be conservative bearing in mind the suggested 2022 growth run-rate at +26% YoY.
- Using the current installed base and assumptions for this in the lifecycle of VR, we can use adoption curves to try and size the overall market at maturity:
 - If we assume to date VR has been limited to 'innovators' only so far (2.5%), this would suggest an overall market at maturity of 1.4bn headsets.
 - If we are more conservative and assume we have moved past 'innovators' and adoption has peaked amongst 'early adopters', it would suggest a market at maturity of a more conservative c. 240m headsets.

VR Hardware growth drivers

How do we justify expectations for VR hardware market growth? We see a number of different drivers, some mass market and others more premium end. We see tech innovation and upgraded experiences as key to drive consumer uptake and growth. Technology is a driver, but content is also important.

Hardware launches should drive installed base growth

- Major global tech operators are looking to AR/VR innovation with a number of high profile product launches as technology develops. Facebook, Google, Microsoft, HTC and Sony are all major players, with press reports suggesting Apple is also developing products. We can also see an argument that AR/VR may become even more important for mobile handset providers if integration of AR/VR can help accelerate the smartphone upgrade cycle.
- MelodyVR can service existing VR headsets (c. 36m) in the market, but new hardware launches are key catalysts for further adoption and evolution of VR – as technology improves, manufacturers make use of better screens, more advanced motion tracking and more interactive content at lower price points. We view advancements in screen resolution as a major success criteria for VR as a legitimate media channel.

Table 16: Upcoming VR product launches

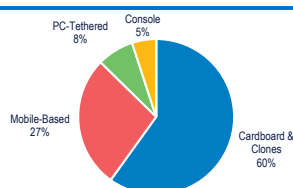
Standalone VR headset launches	Launch date	Expected price
Oculus Go	May 2018	\$199
Oculus Santa Cruz	Late 2018?	\$500?
Google Daydream - Lenovo Mirage Solo	2Q 2018	\$399
HTC Vive Focus	Later 2018	\$500-600?

Source: Fast Company

Unpicking the VR headset market

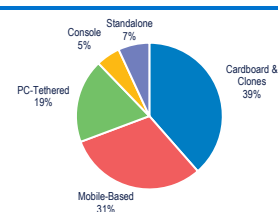
- We need to break down the VR hardware today and growth potential between different products with very different functionality and pricing:
 - Cheaper, more basic products such as Cardboard/Clones and mobile-based product which is 87% of the market by volume in 2017.
 - More expensive higher spec PC and console tethered product – small in terms of volume (13%).
 - Standalone product does not feature in 2017, but now looks a key driver, e.g. Oculus Go launch. This category should offer good functionality/usability at a lower price point (\$199 for Oculus Go).

Figure 29: 2017 installed base by type



Source: Greenlight Insights

Figure 30: 2020 installed base by type



Source: Greenlight Insights

Standalone headsets

- Standalone headsets in mainstream form are set to roll out this year. These look key for the VR market in terms of improved performance and usability while price points are getting more affordable for the mass market.
 - Oculus Go; just launched (\$199/£199) – see below.
 - New Google Daydream platform based headsets are also appearing from Lenovo. Daydream sales are suggested at 2m-3.5m in 2017 by engadget.
 - More upmarket, high performance (and higher price) standalone headsets are also expected to appear in 2018, e.g. the Oculus Project Santa Cruz and HTC Vive Focus.

Spotlight on Oculus Go

- Oculus Go looks a key VR hardware launch at the Facebook Developer Conference F8 on 1-2 May. The headset is to be manufactured by Xiaomi, powered by a Snapdragon 821 processor with 32Gb and 64Gb models available.
 - The relatively low price point (\$199) and untethered/simple operation makes this more an entry-level model for a wider, mass market audience than tethered heavier, expensive, gaming focused devices, such as Oculus Rift (RRP now \$399 vs \$499 on launch) and the HTC Vive (RRP \$499).
 - Carry-over of Gear VR app/games as Go is built on the same platform. This is good from a cross-over perspective, though there is no carry over from Oculus Rift.
 - Improvements in usability. We believe the use of inside-out motion tracking is key for the user experience: this implies the headset does not need separate sensors outside the headset to track movement.
 - Higher/denser screen resolution – vital given closeness of the screen to the user’s eye. Though an LCD screen, Go should offer better experience than the current, higher cost Oculus Rift. Go resolution is 2560x1440 pixels vs Rift at 2160x1200 (a traditional TV is 1920x1080 pixels). Go refresh rate (image changes per second) is 72Hz vs Rift at 90Hz (as reference traditional TVs were 60Hz with modern TVs now going up to 240Hz). An interesting technology workaround for faster, better rendering is new software called Fixated Foveated Rendering that renders the area of vision you are looking at directly at highest resolution, but renders the picture in your more peripheral vision at lower rates. Trade reviews at the recent Game Developer Conference in San Francisco and post launch are positive for this feature and the relative quality of the visuals.

Figure 31: The new Oculus Go



Source: Oculus

Mobile and entry-level headsets

- We believe a lot of volume uptake has come from cheaper mobile device-based hardware, such as Samsung Gear VR and cheaper products, e.g. Google Cardboard and its clones. These all utilise in-built smartphone capability and headset attachments.
 - All recent and high-end Samsung Galaxy mobile phones are compatible with the Gear VR (developed in conjunction with Oculus), and therefore capable of playing VR content. Samsung has pushed VR as a medium through bundling Gear VR with mobile phone hardware and contracts.
 - Google Cardboard has been around for several years, and is compatible with many different phones. This has been a significant driver of early VR adoption with close to 100m units in circulation (source: Superdata), as it is very cheap, compatible with a wide variety of mobile phones, and easy to use. Our installed base assumption for 2017 assumes only 15-20% of these are in use.

Figure 32: Google Cardboard – entry-level VR at an affordable price



Source: Google

Figure 33: Gear VR – VR for Samsung



Source: Samsung

Tethered headsets

- **Tethered headsets** (to PC or gaming devices) are also expected to grow their user base: these are more expensive, but with much better functionality.
 - Current examples are the Oculus Rift, HTC Vive and PlayStation VR.
 - However, tethered devices can be 'clunky' given the tether to other hardware and could be seen as a niche/expensive product.
 - We see the latter as a risk with appeal to certain consumer groups, e.g. hard core gamers, but lacking the mass appeal of more mainstream electronic products, such as tablets or PCs.
 - However, against this, even if VR appeals only to early adopters/niche users such as gamers, the 2.2bn global games community (source: Newzoo April 2017) is still a meaningful addressable market. The installed base of the PlayStation 4 is over 74m worldwide: we also note that the PlayStation VR headset has sold over 2m units in 2017 (source: Sony).

Figure 34: Oculus Rift



Source: Facebook

Figure 35: Playstation VR



Source: Sony

VR – tech challenges

- We would argue that a c. 36m installed worldwide base for VR headsets is a good number given limitations of the technology to date (and lack of high quality content). Key tech challenges are:
 - **Headset design** – the success of premium priced Apple hardware suggests consumers are less likely to use ‘clunky’ looking hardware. While Oculus has moved the game on, headsets still arguably need to be more compact. The good news is that untethered/wireless next gen headsets remove physical limitations.
 - **Picture quality** – this is dictated by the display. While picture quality is good (as per HD), it is not high enough given the closeness of the display to users’ eyes – arguably we need 4k resolution to get to a good picture (as EVR content) with some industry comment suggesting even higher is required for a ‘perfect’ picture. Refresh rates are also relevant to keep immersive image changes smooth/continuous. EVR suggests 4k resolution could be available in the next 12-18 months.
 - **Movement control** – tracking is key to explore an immersive environment effectively. Technical aspects of this focus on rotational tracking and positional. Tethered headsets tend to use ‘external’ tracking, using external sensors/beacons (infrared or LED) separate to the headset itself, which limits movement and where the product can be used. We see ‘inside-out’ tracking as the next step (as used on Oculus Go) – sensors are within the device itself so users can operate the headset more widely.
 - **Hardware/processing capacity** – high processing power is needed to allow rendering and frame rates to be acceptable. Tethered units have the advantage of using the (usually high power) PC or console to do this, though standalone and smartphones use the device power – the Oculus Go processor is the same as the original Google Pixel and LG G6 phones. EVR suggests higher end smartphones have sufficient processing power to view its content effectively.
 - **Bandwidth/Wi-Fi** – lag or buffering makes VR viewing difficult. Industry comment suggest non HD video streams need 50Mbps connections to work effectively, though EVR suggests its content can be viewed effectively at 3-4Mbps using its proprietary video compression technology. Industry commentators suggest UK ‘superfast’ broadband (fibre or cable) is 24Mbps or faster vs ADSL (copper) at 8-20Mbps though this is less reliable. The US is faster – we have seen an average quoted by commentators at 60-70Mbps.

EVR business model

MelodyVR has now launched but it is very early days, with lack of visibility and execution risk, but we forecast good revenue growth and meaningful profit in FY21E. The business model looks highly operationally geared: hardware relationships imply low marketing costs for a consumer facing platform. Low capex requirements and negative working capital point to strong free cash flow.

Revenue growth drivers

- Key drivers are the number of paying users MelodyVR can attract, and average spend within the app:

Table 17: Key performance indicators to FY21E

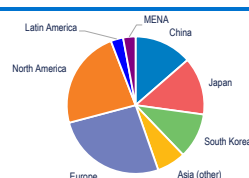
£m unless stated	FY17	FY18E	FY19E	FY20E	FY21E
Active users at YE (m)	0.00	0.45	3.08	9.60	19.45
Growth (%)	-	-	578%	212%	103%
Paying users at YE (m)	0.00	0.11	0.82	2.69	5.84
Growth (%)	-	-	618%	230%	117%
Penetration of active users (%)	-	25%	27%	28%	30%
Average spend (annual)	£0.00	£50.00	£52.50	£55.13	£57.88
Growth (%)	-	-	5%	5%	5%
Revenue	0.0	1.1	24.4	96.6	246.7
Growth (%)	-	-	2048%	296%	155%

Source: Company, Investec Securities estimates

Phased territorial launch expected

- Our forecasts are based on MelodyVR initial launch in Europe/UK and the US.
 - We do not have regional data on the VR installed base of c.36m headsets at Dec 2017, but on a revenue basis, we assume North America and Europe are half of the VR market given their early adoption of the technology.
 - We assume EVR broadens its geographic coverage to include Asia and Latin America on a staged roll-out basis post initial launch. EVR specifically references South Korea, China, Taiwan and Japan. These markets could scale quite rapidly with expected hardware launches.

Figure 36: VR revenues by territory (2018)

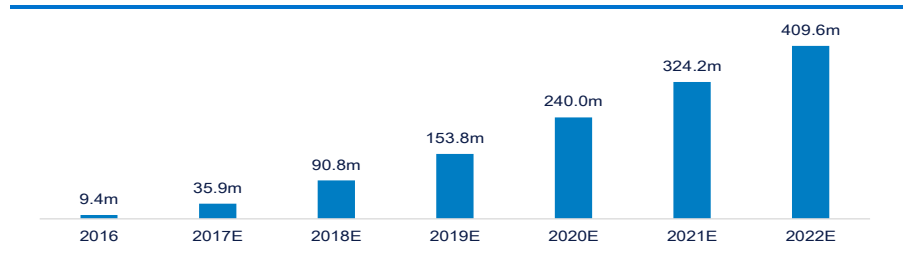


Source: Digi-Capital

User drivers

- VR headsets – rapid growth expected.** We model user numbers based on the installed base of VR headsets globally. Market forecasts suggest good VR growth over the next five years, driven by new/better/cheaper product launches and growing content. By 2020, Greenlight market forecasts assume there are 240m VR devices globally.

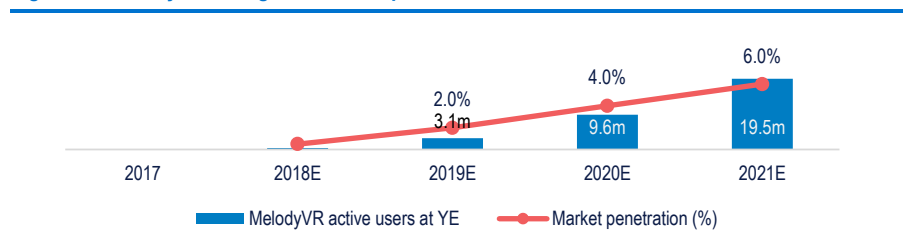
Figure 37: VR market forecasts



Source: Greenlight Insights, Investec

- MelodyVR user penetration – we segment active and paying users:**
 - Active users** – total users using the app are driven by (limited) free content that should draw visitor numbers. Also, MelodyVR should see strong early take-up given likely partnership/bundle deals with hardware manufacturers. As MelodyVR is a key VR content provider, this could imply active user penetration of the app scales relatively quickly. We assume 4%/6% VR market penetration by FY20/21E or 10m/20m users – this compares to Spotify active users at 157m in 2017 (44% penetration) and a target of 200m in 2018.

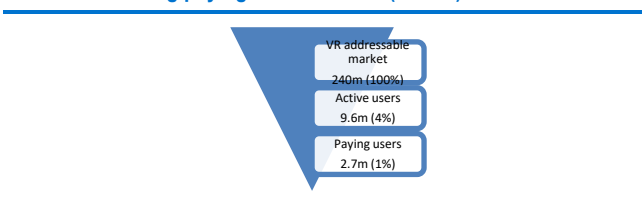
Figure 38: MelodyVR user growth assumptions



Source: Investec Securities estimates

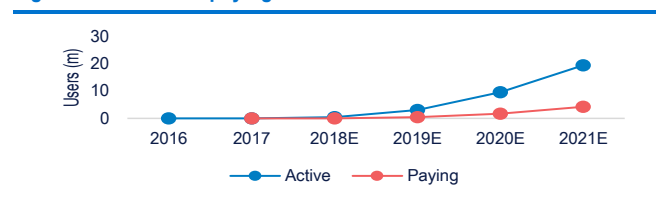
- Paying users** – active users that buy content. We assume 25-30% of MelodyVR app installs convert to paying users. This implies 2.7m/5.8m paying users by 2020/21 (1%/1.8% penetration) vs Spotify at 71m in 2017 and its 2018 target of 92-96m.

Table 18: Deriving paying user numbers (FY20E)



Source: Investec Securities estimates

Figure 39: Active vs. paying users



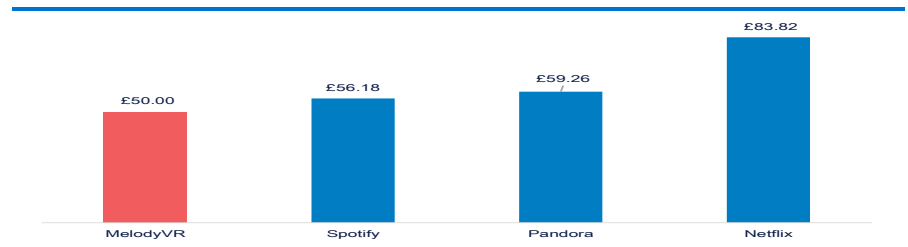
Source: Company, Investec Securities estimates

Deriving average spend (ARPU)

- We try to use conservative spend/ARPU forecasts pre mass market launch:
 - We model average customer spend or ARPU at £50/year or £4/month. This is broadly in line with Spotify's paying user ARPU, but well below Pandora and Netflix. An alternative way to think about this figure would be to assume 5 pieces of premium content bought each year.
 - We note that new technology tends to be driven by most engaged/passionate consumers. In music terms, these might be so-called 'super fans' – as a group, we would expect spending well above the long-term average implying we could be conservative in the initial period post launch.

- **Longer-term ARPU upside?** We see MelodyVR content as more differentiated, long play and immersive than simple audio tracks found on Spotify. We see this as similar to higher value content on other streaming services, e.g. Netflix, which earns a paying user ARPU of over £80. Subscription and advertising revenue streams should also boost longer-term ARPU for MelodyVR as the offer scales.

Figure 40: We assume MelodyVR's ARPU well below other well-known subscription offers

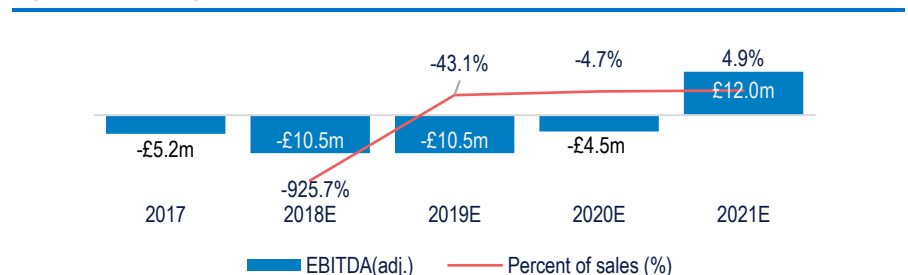


Source: Investec estimates, Company data, Music Business Worldwide. Netflix ARPU based on FY17 revenue per paid membership. Spotify ARPU based on various press reports. Pandora ARPU as reported Q3 2017.

Cost leverage should drive profit and returns

- As an online platform with a substantial catalogue of content, with regular new offerings, the business model looks able to scale rapidly and suggests high returns can be generated.
 - Gross profit margin is assumed to be modest given pay away to platform providers/music labels – we forecast 17% GM in the medium/long term.
 - However, we see operational and financial leverage across other costs. We believe administrative overheads, content creation costs and (limited) marketing spend should all benefit from economies of scale.

Figure 41: EBITDA growth – we forecast profit in FY21E



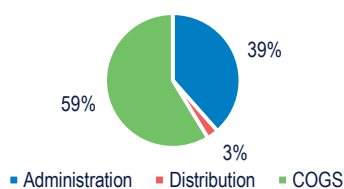
Source: Company, Investec Securities estimates

- **GM and cost of sales:** we assume EVR generates a blended gross margin of 15% in year one rising to 17% mid-term/post-launch.
 - App store fees – pay away at 30% to platforms as industry norm.
 - Details of the contracts with music right holders are not disclosed. For reference, Spotify FY18 guidance is gross margin at 23-25% vs 2017 at 21% and FY16 at 14%, driven by renegotiated music royalty contracts and mix.
 - We assume EVR expenses content capture costs (i.e. filming) through COGS. We also assume unique content capex is capitalised and amortised via COGS. These costs should be operationally leveraged as the model scales.

- **Marketing costs:** We forecast relatively low marketing cost for a B2C platform as EVR is focusing on social media marketing/engagement and should benefit from co-marketing/exposure from hardware manufacturers and music artists.
 - We assume only modest marketing cost at £0.3m this year, increasing in absolute terms to 3-4% of sales in the long term.
 - This figure is well below other internet peers in absolute and as a % of sales in comparison to other B2C offers (e.g. Just Eat 20%) given assumed marketing partnerships, but we really need to see how marketing costs evolve in a VR content environment where there is less competition in terms of content provision and for users than in more established platforms.

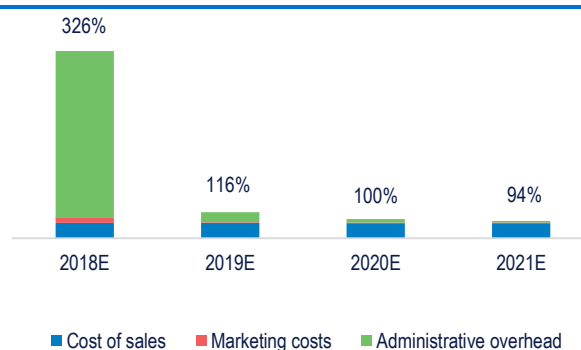
- **Administration costs:**
 - From initial 2017 overhead at £5m, we forecast this doubling to £10m this year on UK/US launch and initial roll-out into other new territories. We assume £21m cost by FY21E.
 - Increases are driven by head count, which we expect to increase from an average 30 staff in FY17 to 160 by FY21E.
 - Most of the headcount increase/hires would be software developers working on the platform and staff working on content creation (i.e. content capture, post-production etc.). Average salary is modelled to rise to Spotify/Netflix levels (\$125k/head).

Figure 42: Cost base breakdown (FY19E)



Source: Investec Securities estimates, Company data

Figure 43: The model should benefit from economies of scale



Source: Investec Securities estimates

Table 19: Profit & loss forecasts

£m unless stated To Dec	FY17	FY18E	FY19E	FY20E	FY21E
Revenue	0.0	1.1	24.4	96.6	246.7
Growth (%)	-	-	20.5	3.0	1.6
Cost of sales	0.0	-1.0	-20.5	-80.1	-204.7
Gross profit	0.0	0.2	3.9	16.4	41.9
Gross margin (%)	-	15%	16%	17%	17%
Distribution costs	0.0	-0.3	-1.0	-3.9	-8.6
Administrative costs	-5.2	-10.3	-13.4	-17.1	-21.3
EBITDA (adj.)	-5.2	-10.5	-10.5	-4.5	12.0
Margin (%)	-	-	-	-	4.9%
Depreciation & amortisation	-0.1	-0.2	-0.4	-0.7	-1.1
EBIT (adj.)	-5.3	-10.7	-10.9	-5.3	10.9
Net finance costs	0.0	0.0	-0.1	0.0	0.0
Pre-tax profit (adj.)	-6.2	-11.8	-12.3	-6.8	9.0
Share option costs	-0.9	-1.1	-1.3	-1.6	-1.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	-6.3	-11.8	-12.3	-6.8	9.0
Tax	0.0	0.0	0.0	0.0	-1.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Net income (adj.)	-6.2	-11.8	-12.3	-6.8	7.4
Shares in issue (dil.) mn	1212.1	1467.7	1509.4	1509.4	1509.4
EPS (adj. dil.)	-0.4	-0.8	-0.8	-0.5	0.5

Source: Company, Investec Securities estimates

Strong free cash flow conversion

- We model relatively low capital expenditure intensity given most platform development on is expensed through the P&L as administrative costs. We assume content creation via intangible capex – modest at £0.5m in FY18E, increasing to £5m in FY21E.
- The working capital cycle also looks favourable – we believe app stores pay companies monthly in arrears while payments to most of EVR's service providers will likely be later. This means the working capital cycle of the business is likely to be negative, and ultimately EVR should be self-funding as it scales.

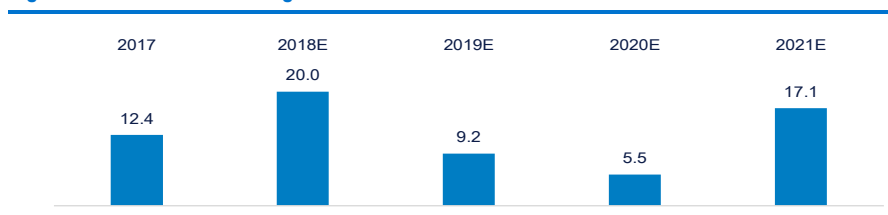
Table 20: Cash flow forecasts

£m unless stated To Dec	FY17	FY18E	FY19E	FY20E	FY21E
EBIT	-5.3	-10.7	-10.9	-5.3	10.9
Change in working capital	0.3	-0.4	0.6	2.0	4.1
Depreciation & amort.	0.1	0.2	0.4	0.7	1.1
Other	0.0	0.0	0.9	1.5	3.2
Operating cash flow	-4.9	-10.9	-9.0	-1.0	19.2
Tax paid	0.0	0.0	0.0	0.0	-1.4
Capital expenditure	-0.6	-0.5	-1.7	-2.7	-6.2
Enterprise free cash flow	-5.5	-11.4	-10.8	-3.7	11.6
Net interest	0.0	0.0	-0.1	0.0	0.0
Equity free cash flow	-5.5	-11.4	-10.8	-3.7	11.6
Dividends	0.0	0.0	0.0	0.0	0.0
Share issuance	14.2	19.0	0.0	0.0	0.0
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Other	0.4	0.0	0.0	0.0	0.0
Change in net (debt)/cash	9.0	7.6	-10.8	-3.7	11.6
Net debt/(cash)	-12.4	-20.0	-9.2	-5.5	-17.1

Source: Company, Investec Securities estimates

- Post the recent £20m fund raise and accelerated roll-out beyond the UK/US, we forecast a trough in net cash in FY20E, and meaningful profit/cash inflow in FY21E.

Figure 44: Net debt – the trough in cash balances should come in FY20E



Source: Investec Securities estimates, Company

Appendix 1 – content rights, permissions and waivers required

- The 2016 AIM listing document gives detail on content rights that need to be cleared for EVR's 360 degree VR video and audio content. This highlights the complexity and a key barrier to building a content rights portfolio:
- **Performing artists.** This includes singers, backing, musicians and dancers. Rights are controlled by the performers themselves or their record label if under exclusive contract (EVR's AIM prospectus suggests 50/50 split for its material). EVR suggests various agreements. Rights split between: (1) Property rights: covering copies of a recording and issuing them to the public, including online. A licence or assignment of rights is required; (2) No property rights: recording/exploiting performances. Consent required; (3) Equitable remuneration for performances, e.g. sound recording is broadcast or used in a film; (4) Moral rights: exercised to stop derogatory treatment of their performance. Waivers needed to be prudent; (5) Image rights: not legally binding in UK law, but seen as good practice.
- **Venues.** Access rights for recording at the venue are needed and licences are required to show any logos, names and other branding in or around the venue. EVR suggested 9 agreements with promotional or venue businesses at its AIM listing, e.g. Ibiza Rocks and Broadwick Live Ltd. These have some exclusivity to capture and create VR content.
- **Members of the public.** More good practice, and often covered in the venues' T&Cs (ticket plus signage) if recording is undertaken at the venue.
- **Musical compositions.** This is controlled by the composer(s) of the music, any music publisher representing the composer, or a collection society on behalf of the composer or record label. Where music is in the recording, the following is needed: (1) Reproduction licence: initial filming plus further reproduction; (2) Communication to the public: licence for transmission, performance and other exploitation; (3) Moral rights waiver: to stop derogatory treatment or false attribution – a waiver is seen as prudent.
- **Sound recordings.** Less likely if live, but relevant for DJs etc. Need a reproduction licence and communication to the public licence.
- **Lighting design and choreography.** If a filmed sequence includes a light sequence, choreographed movement and/or sound/set design. This may be covered under a producer/director agreement; if not, express written assignment is desirable, though EVR suggests this is not usually obtained unless high profile venues and artists are involved.
- **Footage:** English law suggests automatic first ownership of film copyright is the producer and director unless part of an operating business. If not the latter, written assignment of ownership is needed. Artists and venues ideally need to acknowledge non transfer of ownership. Major labels would insist recordings of their artists are assigned back to the label itself then licensed back over a specific period, then the content goes back to the label on a non-exclusive basis.

Appendix 2 – key management

Management and board and operational level looks highly experienced with CVs oriented to the music industry and technology, including music streaming businesses such as Spotify.

- **CEO and executive Chairman:** Anthony Matchett – co-founder. Extensive music industry experience; initially an audio engineer, then music post-production for advertising. Founded Wave Recording Studios' interactive division in 2011, focused on game developers and publishers (e.g. Microsoft Studios, Sony Computer Entertainment, King.com and Ubisoft). Holds 168.5m shares (13.1% of the current issued share capital).
- **COO:** Steven Hancock – co-founder. 15 years in events management, working with global artists and FTSE 100 companies. More recently, Commercial Manager at Ibiza Rocks (fast growth youth lifestyle brand) – sales and marketing. Holds 130.9m shares (10.2% of the current issued share capital).
- **CFO:** Sebastian Theron. Chartered accountant. Previously FD of Affectv Ltd, 11th in the Sunday Times Tech Track 100, and financial controller at Interactive Investor.
- **Non-exec:** Simon Cole. CEO of 7digital Group and its previous listing as UBC Media Group. Formerly non-exec of Audioboom.
- **Non-exec:** Ian Hanson. COO of Global Radio. Previously DMGT group operations director at dmg media and CEO of Evenbase. Previous music industry roles, including COO of EMI Music.
- **Industry Advisor:** Kevin Brown. Music industry veteran with 25+ years' senior music label and artist management experience. Spotify for 5 years as the most senior industry-facing exec (ex US); head of artist and label services (UK and international).
- Other senior operational management and selected experience:
 - CMO: Nikki Lambert. Spotify 5 years, Virgin Group
 - President N America: Ben Samuels. Live Nation/Bkstg, ICM, Paramount
 - VP digital: Katie Ray. Music digital platforms for artists
 - VP Content: Hayley Lloyd. Deezer, Universal, Virgin Media
 - VP Digital Ops: Tasha White. Sony, digital supply chains
 - Design Director: Jamie Innes. Spotify, Microsoft, Nokia
 - Licensing Manager: Linda Collins. Universal

Summary Financials (£m)

Year end: 31 December

Income Statement	2017	2018E	2019E	2020E	2021E
Revenue	0.0	1.1	24.4	96.6	246.7
EBITDA	(5.2)	(10.5)	(10.5)	(4.5)	12.0
Depreciation and amortisation	(0.1)	(0.2)	(0.4)	(0.7)	(1.1)
Operating profit	(5.3)	(10.7)	(10.9)	(5.3)	10.9
Other income	-	-	-	-	-
Net interest	(0.0)	0.0	(0.1)	0.0	0.0
Share-based-payments	(0.9)	(1.1)	(1.3)	(1.6)	(1.9)
PBT (normalised)	(6.2)	(11.8)	(12.3)	(6.8)	9.0
Impairment of acquired intangibles	-	-	-	-	-
Non-recurring items/exceptionals	0.0	0.0	0.0	0.0	0.0
PBT (reported)	(6.2)	(11.8)	(12.3)	(6.8)	9.0
Taxation	0.0	0.0	0.0	0.0	(1.5)
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued/assets held for sale	-	-	-	-	-
Net Income (normalised)	(6.2)	(11.8)	(12.3)	(6.8)	7.4
Attributable profit	(6.2)	(11.8)	(12.3)	(6.8)	7.4
EPS (reported)	(0.5)	(0.8)	(0.8)	(0.5)	0.5
EPS (norm., cont.) – FD (p)	(0.5)	(0.8)	(0.8)	(0.5)	0.5
EPS (norm., cont., IAS19R adj.) – FD	-	-	-	-	-
DPS (p)	0.0	0.0	0.0	0.0	0.0
Average number of group shares - FD (m)	1,212.1	1,467.7	1,509.4	1,509.4	1,509.4
Average number of group shares (m)	985.4	1,241.0	1,282.7	1,282.7	1,282.7
Total number of shares in issue (m)	1,157.7	1,282.7	1,282.7	1,282.7	1,282.7
Cash Flow	2017	2018E	2019E	2020E	2021E
Operating profit	(5.3)	(10.7)	(10.9)	(5.3)	10.9
Depreciation & amortisation	0.1	0.2	0.4	0.7	1.1
Other cash and non-cash movements	(0.0)	0.0	0.9	1.5	3.2
Change in working capital	0.3	(0.4)	0.6	2.0	4.1
Operating cash flow	(4.9)	(10.9)	(9.0)	(1.0)	19.2
Interest	0.0	0.0	(0.1)	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0	(1.4)
Dividends from associates and JVs	-	-	-	-	-
Cash flow from operations	(4.9)	(10.9)	(9.1)	(1.0)	17.8
Maintenance capex	(0.6)	(0.5)	(1.7)	(2.7)	(6.2)
Free cash flow	(5.5)	(11.4)	(10.8)	(3.7)	11.6
Expansionary capex	-	-	-	-	-
Exceptionals and discontinued operations	-	-	-	-	-
Other financials	0.4	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	-	-	-	-	-
Net share issues	14.2	19.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Change in net cash	9.0	7.6	(10.8)	(3.7)	11.6
Net cash/(debt)	12.4	20.0	9.2	5.5	17.1
FCFPS - FD (p)	(0.5)	(0.8)	(0.7)	(0.2)	0.8
Balance Sheet	2017	2018E	2019E	2020E	2021E
Property plant and equipment	0.6	0.5	0.3	0.3	0.4
Intangible assets	0.6	1.1	2.6	4.5	9.5
Investments and other non current assets	0.0	0.0	0.0	0.0	0.0
Cash and equivalents	12.4	20.0	9.2	5.5	17.1
Other current assets	0.2	0.1	2.3	9.3	23.7
Total assets	13.9	21.7	14.4	19.6	50.6
Total debt	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Provisions & other current liabilities	(0.6)	(0.1)	(3.9)	(14.3)	(36.0)
Pension deficit and other adjustments	-	-	-	-	-
Total liabilities	(0.6)	(0.1)	(3.9)	(14.3)	(36.0)
Net assets	13.3	21.5	10.5	5.3	14.6
Shareholder's equity	13.3	21.5	10.5	5.3	14.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	13.3	21.5	10.5	5.3	14.6
Net working capital	(0.4)	(0.0)	(0.7)	(2.6)	(6.8)
NAV per share (p)	1.1	1.7	0.8	0.4	1.1

Source: Company accounts, Investec Securities estimates

Calendarised Valuation

Year end: 31 December

	2017	2018E	2019E	2020E
Calendar PE (x)	(31.1)	(19.9)	(19.6)	(35.3)
Calendar Price/NAVPS (x)	14.0	9.5	19.5	39.0
EV/sales (x)	high	163.2	7.6	1.9
EV/EBITDA (x)	(35.8)	(17.6)	(17.6)	(41.0)
FCF yield (%)	(2.8)	(4.9)	(4.5)	(1.5)
Dividend yield (%)	0.0	0.0	0.0	0.0

Source: Company accounts, Investec Securities estimates

Ratios and Metrics

Year end: 31 December

Ratios and metrics	2017	2018E	2019E	2020E	2021E
Revenue growth (y-on-y) (%)	-	-	2,047.7	296.1	155.5
EBITDA growth (y-on-y) (%)	-	-	-	-	-
Net income (normalised) growth (yoy)	-	-	-	-	-
EPS (normalised) growth (y-on-y) (%)	-	-	-	-	-
FCFPS growth (y-on-y) (%)	-	-	-	-	-
NAVPS growth (y-on-y) (%)	190.0	46.6	(51.2)	(49.9)	177.2
DPS growth (y-on-y) (%)	-	-	-	-	-
Interest cover (x)	(1,580.3)	ns	(125.0)	ns	ns
Net debt/EBITDA (x)	2.4	1.9	0.9	1.2	(1.4)
Net debt/equity (%)	(86.0)	(88.2)	(77.6)	(85.2)	(110.4)
Net gearing (%)	(1,449.2)	(1,295.7)	(674.8)	2,504.8	681.1
Dividend cover (x)	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA margin (%)	n.m.	(925.7)	(43.1)	(4.7)	4.9
EBITA margin (%)	n.m.	(944.4)	(44.9)	(5.4)	4.4
ROE (%)	(46.9)	(54.8)	(117.3)	(129.7)	51.0
ROCE (%)	(40.0)	(49.7)	(103.9)	(99.8)	74.4
NWC/revenue (%)	n.m.	(2.7)	(2.7)	(2.7)	(2.7)
Tax rate (normalised) (%)	0.0	0.0	0.0	0.0	17.0
Tax rate (reported) (%)	0.0	0.0	0.0	0.0	17.0

Source: Company accounts, Investec Securities estimates

Target Price Basis

Valuation is based on DCF and probability weighted scenario

Key Risks

Risk is higher than average given EVR early stage monetisation. Key risks include VR headset uptake and MelodyVR penetration, ARPU assumptions and costs. Commercial music deals are vital for the model.

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Stock ratings for research produced by Investec Bank plc

	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 10%	225	64%	86	38%
Hold	0% to 10%	100	28%	6	6%
Sell	less than 0%	26	7%	0	0%

Source: Investec Securities estimates

Stock ratings for Indian stocks

Stock ratings for research produced by Investec Bank plc

	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 15%	80	70%	1	1%
Hold	5% to 15%	25	22%	0	0%
Sell	less than 5%	10	9%	0	0%

Source: Investec Securities estimates

Stock ratings for African* stocks

Stock ratings for research produced by Investec Securities Limited

	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 15%	33	56%	7	21%
Hold	5% to 15%	12	20%	0	0%
Sell	less than 5%	14	24%	1	7%

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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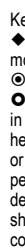
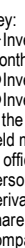
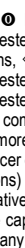
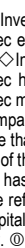
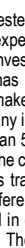
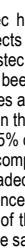
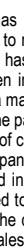
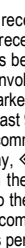
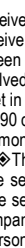
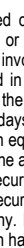
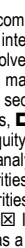
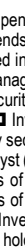
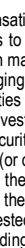
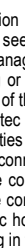
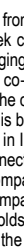
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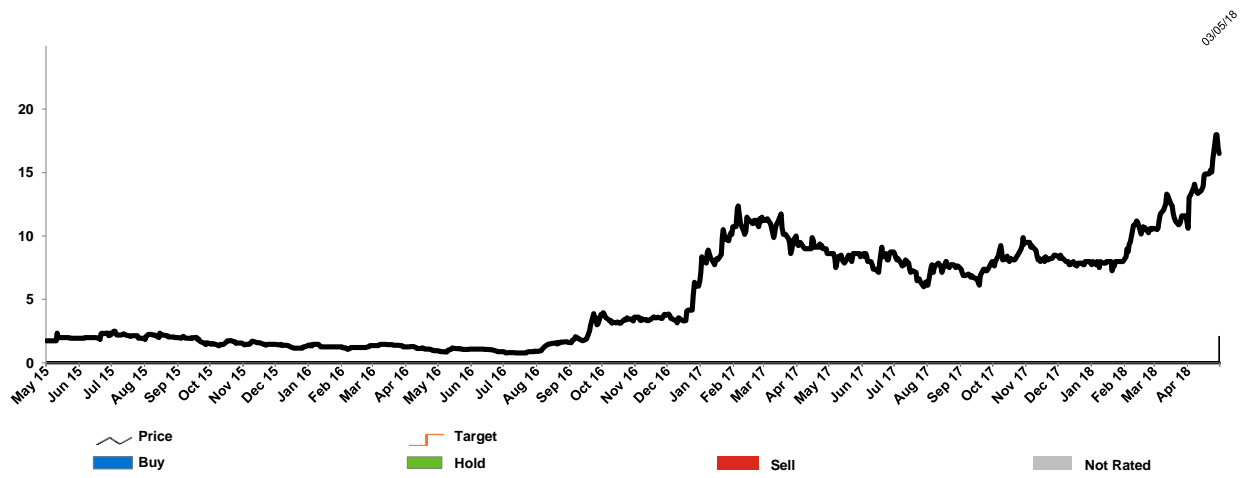
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