

BANGO

SOFTWARE AND COMPUTER SERVICES

22 October 2019

BGO.L

138p

Market Cap: £97m

SHARE PRICE (p)



12m high/low 151p/77p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£3.5m
Enterprise value	£93.5m
Index/market	AIM
Next news	Trading Update, Dec-19
Shares in Issue (m)	70.5
Chairman	David Sear
Chief Executive	Ray Anderson
Finance Director	Carolyn Rand

COMPANY DESCRIPTION

Bango links global merchants with payment partners from Africa to the Americas.

www.bango.com

BANGO IS A RESEARCH CLIENT OF PROGRESSIVE

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Bango Resale - Enabling OTT Media Players to Acquire Billions of Customers

Bango recently announced that its resale routes reach over 2bn subscribers. In this note we discuss an area which we believe could represent a material future growth opportunity – bundling and resale. The group's initial focus is on OTT service providers, where we expect the addition of new OTT service providers and new resellers to the Bango Platform to drive growth. With a number of resale routes already announced, the group is already gaining commercial traction. Partnerships with global internet leaders such as Amazon, Pandora and Spotify further validate the service.

- 2bn subscribers connected:** Bango Resale technology gives its partners the ability to market third-party products and services alongside their own. With a reach of over 2bn subscribers - over a quarter of the world's population, we believe that resale could represent a material incremental growth opportunity for Bango.
- Three key growth drivers for resale:** We believe there are three key drivers of Bango Resale adoption: 1) New OTT service providers; 2) New resellers across more verticals (Mobile Network Operators ("MNOs"), and following recent technology enhancements, fixed line, broadband etc); 3) Bango data insights improve acquisition yields for its global partners. Bango Marketplace delivers more paying customers from user acquisition campaigns making it highly relevant to the OTT providers using the Bango Platform for resale. Subscriber acquisition costs are high, therefore acquiring a higher percentage of long-term paying customers boosts the ROI for the global OTT service providers.
- Platform technology a key enabler:** Bango recently announced the launch of its suspend and resume technology. With this addition, the benefits of bundled services are now available for rewards and other promotions for all subscribers. With c75% of global mobile subscribers being pre-paid, suspend and resume means that all 3bn pre-paid subscribers can now participate in the bundling opportunity.
- Gaining commercial traction:** Bango has announced resale routes in the Americas, Asia, Australasia and Europe. The partnerships signed with OTT service providers to date are with some of the global internet leaders e.g. Amazon and Spotify. These partnerships represent significant votes of confidence in the Bango Resale technology.

FYE DEC (£M)	2016	2017	2018	2019E	2020E
EUS (Non-GAAP)	132.3	271.4	558.2	1,237.5	2,475.0
Revenue	2.6	4.2	6.6	11.3	16.8
Adj EBITDA	-2.4	-1.6	-0.9	2.5	5.0
Fully adj PBT	-4.1	-3.6	-2.9	0.1	2.6
Fully adj EPS	-6.3	-5.5	-4.2	0.2	3.7
EV/EBITDA	-38.6x	-59.6x	-107.8x	38.1x	18.8x
PER	N/A	N/A	N/A	660.9x	37.2x

Source: Company Information and Progressive Equity Research estimates

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What is bundling and resale?

For the unfamiliar, bundling and resale is the ability for a reseller (including mobile operator, telco, cable TV, broadband, utility providers) to offer 3rd party products or services as part of a bundled package with their services, or to resell them, often at a discounted rate, as a standalone or add-on.

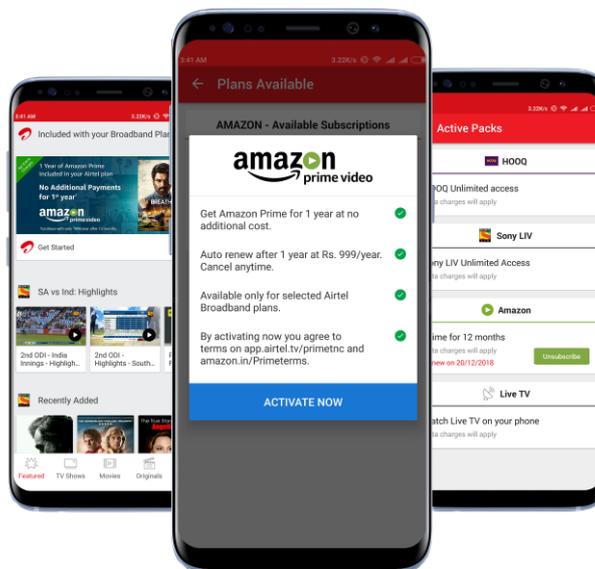
To give some real-life examples of Bango Resale, the technology gives a Vivo (Telefonica) customer in Brazil the opportunity to subscribe to Amazon Prime Video as part of their mobile, fixed or broadband subscription. In the USA, eligible AT&T customers can add a subscription to music streaming service Pandora to their mobile phone plan. In both examples the network operator (Vivo, AT&T) are the resellers, Amazon and Pandora the OTT service providers. These are two examples of existing Bango resale in action – as will be discussed below, the group has a number of other active agreements.

In this note we use the terms “bundling” and “resale” interchangeably to describe these business activities. Bango Resale (*note the capitalisation*) is the actual service name.

The business model is based on the number of activations of the 3rd party OTT service providers that are acquired as a result of the offers made by the reseller. Bango charges a fee for each acquired user, the size of which is proportional to the retail value of the 3rd party product or service. The fee is spread over the lifetime of the customers subscription.

The following graphic contains some sample screenshots of the end user experience for a resale offer powered by Bango Resale. In this instance, Bharti Airtel (the reseller) is offering a subscriber a bundled subscription to Amazon Prime Video (a 3rd party service)

Bango Resale – sample screenshots



Source: Company data

Three key growth drivers for resale

With Bango Resale now connected to 2bn mobile users and commercial traction demonstrated with the announcements of a growing number of resale routes, we believe Bango Resale could represent a material growth opportunity for Bango. We have identified three key growth drivers:

- The proliferation of OTT service providers and breadth of services.
- New resellers across more verticals (fixed line, broadband etc).
- Bango audiences enable better targeting to deliver superior yields (and generate competitive advantage for Bango)

New OTT service providers

Over the Top (“OTT”) services are those delivered directly to end-users over the public internet, bypassing third-party networks that traditionally managed online content – e.g. fixed-line telecoms and cable TV networks. While the term OTT is often used in the context of video-on-demand services such as Netflix, it can also refer to audio streaming (e.g. Spotify, Amazon Prime Music), online game streaming (e.g. Sony PlayStation Now, Microsoft xCloud, Google Stadia), messaging (e.g. WhatsApp) and voice communication services (e.g. Skype).

The volume of OTT service providers has seen rapid growth. In our view this has been primarily driven by:

- The realisation that OTT service delivery gives direct access to end-customers, thereby dis-intermediating traditional communications networks and their billing mechanisms
- Growth in global broadband penetration giving service providers a high-bandwidth platform for service delivery
- The development of increasing spectrally-efficient media encoding technologies such as MPEG4 to further improve quality of service for streaming services

OTT services are clearly attractive to end-users – as evidenced by service take-up levels (see below for some data points), which makes them attractive marketing tools for resellers to increase customer acquisition and loyalty. OTT video and music streaming services are a key growth area, Bango already partners with Amazon for Prime, Prime Music and Prime Video, as well as Spotify and Pandora. Our discussion will focus on these two verticals.

Streaming video

The global Streaming Video on Demand (“SVOD”) market is both vast and growing – with a total subscriber base currently estimated at 628m, expected to grow to 947m by 2024¹. Netflix (150m subscribers H1 2019A) and Amazon Prime (>100m subscribers) are the market leaders.

¹ <https://www.v-net.tv/2019/06/03/svod-subscriptions-to-climb-by-119m-globally-in-2019/>

The SVOD space is increasingly competitive and new entrants like Disney+, BritBox and AppleTV+ have created a fragmented consumer market, which will be further disrupted by the emergence of Advertisement-based VOD (“AVOD”) players such as Rakuten. These factors are likely to drive bundling and resale opportunities with resellers. Bango Resale technology will play an increasing role for OTT service providers looking to scale quickly and with speed.

Streaming music

With the recent addition of Spotify and Pandora to the partner roster, Streaming Music services could also present growth opportunities for Bango. Similar to SVOD, the streaming music marketplace is also blessed with a number of sizeable competitors². Spotify is the market leader (c36% market share 2018 and now with over 100m paid subscribers³), followed by the likes of Apple Music, Amazon, Tencent and Google.

New resellers across more verticals

Following recent technology enhancements, the Bango Platform is increasingly valuable to all reseller types, fixed line and cable communications customers as well as the traditional MNO client base – vastly expanding the addressable market.

To quantify the potential size of that opportunity, there are currently 5.8bn mobile subscribers globally⁴, and c1bn for fixed-line broadband⁵. While many of these will ultimately belong to the same customer, we believe that Bango’s ability to address fixed-line access in addition to mobile should result in a material uplift in reach.

Bango Resale offers a number of benefits to both OTT service providers and resellers. From the reseller’s perspective, the product offers the potential for:

- Increased subscriber growth from an enhanced and differentiated offering
- Increased stickiness reduces churn
- Revenue growth from the supply of additional services
- Increased pre-pay to post-pay customer migration. A post-pay subscription requires less effort from the user (no monthly top-up) to maintain ongoing access to services.

Bango Technology gives competitive advantage

We believe core functionality in the Bango Platform positions the company well to capitalise on growth in resale. Bango has developed suspend and resume technology to deliver bundled services to pre-pay mobile, and the customer insights provided by Bango are highly valuable to partners.

Bango technology identifies the customer segments that are most likely to convert to long-term paying customers. These customers can be targeted with appealing offers to maximise take up and also improve customer retention. With clear customer reporting at each stage of acquisition, resellers can reach out to customers with the right offer, at the right time to maximize appeal and long-term customer-value.

² <https://www.statista.com/statistics/653926/music-streaming-service-subscriber-share/>

³ <https://www.theverge.com/2019/4/29/18522297/spotify-100-million-users-apple-music-podcasting-free-users-advertising-voice-speakers>

⁴ <https://www.gsma.com/r/mobileeconomy/>

⁵ https://www.itu.int/dms_pub/itu-s/opb/pol/S-POL-BROADBAND.19-2018-PDF-E.pdf

To give a real-life example of Bango Resale being used to drive customer take up, a UK MNO uses the technology to offer Amazon Prime Video services to subscribers taking certain tariffs. Bango Resale also allows the reseller to market bundled offers to end customers at various stages of the customer lifecycle. For example, a customer approaching the end of a mobile contract can be offered a bundled service to prevent churn. Bango provides audience segmentation that increases the success of targeted marketing offers.

Suspend and resume

Over 75% of the world's 5bn+ mobile subscribers are pre-paid⁶. MNOs want to stabilize the revenue stream from this pre-paid base to a more predictable level of top-up at a more predictable frequency of top up. By providing incentives to prepaid customers, operators have seen success in stabilizing consumer behaviour to improve this predictability. Offering OTT services helps. Subject to the user topping up by a minimum amount each month, they will benefit from a free period of access to the OTT service bundled as a reward. The unintended consequence of this model is how to gracefully handle customers that miss a top up. This would normally trigger cancellation of the OTT subscription service, meaning the user has to sign up for the service again.

In order to mitigate this loss, Bango has developed "Suspend and resume" technology. This feature gives the OTT provider and MNO partner total control over the customer's engagement with their service. Suspend and resume can be activated to stop a missing top-up payment from automatically cancelling the customer's service. Instead, the MNO, or the OTT provider, can suspend the customer's premium access to the service. It can be instantly resumed once the customer has successfully topped-up to meet the minimum requirement of the introductory offer. Nothing is lost as a result of the suspension; the customer drops right back into their active service package. The customer does not need to request the service again or navigate through another service activation flow.

Increased data insights

Bango's role as a key intermediary between e-commerce merchants and mobile operators for payments means the platform generates billions of data points of customer insight data. Management has long realised the value of said data to partners – witness the Dashboard and Boost products built into the Platform and the recent Audiens acquisition.

In our view, the Bango Resale product further enhances the group's ability to collect and analyse customer data and also improves the group's capacity to leverage that data.

In addition to collecting data points from the existing DCB payments business, resale represents an additional data acquisition opportunity for the group. With resale, the Bango Platform is acting as an intermediary between an OTT service provider and reseller, supporting an ongoing relationship with the customer.

All data collection complies with GDPR and other relevant data regulations. MNOs and other Bango partners manage permissions from users including opt-outs, updates and rights of exclusion.

⁶ <https://www.developingtelecoms.com/tech/customer-management/7774-mnos-must-engage-and-graduate-their-prepaid-customer-bases.html>

Gaining commercial traction

In our view, the group has gained solid commercial traction with Bango Resale over the past eighteen months. The following table summarises recent bundling/ resale launch announcements and demonstrates a number of key points:

Bango Resale announcements			
Country	MNO	Service	Announced
Brazil	Vivo	Amazon Prime Video	Jan. 2019
India	Bharti Cellular	Amazon Prime Video	Jan. 2018
UK	Unnamed	Amazon Prime Video	Jun. 2018
USA	AT&T	Pandora	Jul. 2018
Global	Unnamed	Spotify	Aug. 2019
Spain, UAE, Singapore, Philippines, NZ	Unnamed	Amazon services	Aug. 2019

Source: Company data

- With ten routes publicised, Bango Resale is recording impressive commercial traction.
- The services delivered via Bango Resale are provided by global internet titans e.g. Amazon and Spotify. In our view these partnerships represent significant votes of confidence in the resale offering and the group itself.
- With active resale routes in the Americas, Asia, Australasia and Europe, Bango is signing partnership agreements across the globe.
- Commercial sensitivity means Bango is unable to reveal a number of partners involved in the resale agreements signed to date. Nevertheless, we understand that most if not all have significant presence in their respective territories and have good customer reach. For example, Bharti Airtel (India) has c320m subscribers, Vivo (Brazil) has c74m.

Conclusion

With a current 2bn subscriber market and access to 3bn prepaid mobile consumers, we believe Bango Resale represents a material growth opportunity for the group, leveraging the same Platform technology used for its core payments business.

Strategically, we view growing the resale business as a smart move. New services and new resellers can be added to the platform at near-zero cost to Bango, while delivering incremental revenues – from both resale transactions and from additional data insight revenues. Financially, Bango Resale should therefore drive additional operating leverage.

The business has already gained commercial traction with global internet leaders including Amazon Prime (including the video and music streaming services offered under this brand), Pandora, and most recently Spotify. Working with global internet leaders such as these further validates the strength of the Bango Resale offering.

Lastly, the Bango management team has, in our view, a solid record of delivering growth in the subscriber base alongside service expansion. Bango Resale reaches over a quarter of the world's population and the Bango Platform is now processing over £1bn of EUS on an annualised basis – over 22x the FY 2015 level. Furthermore, as Bango CEO Ray Anderson recently pointed out - the business has gathered more payment data in the last twelve months than the previous five years combined.⁷

⁷ See P.5 Bango Interim Results Presentation. September 2019.

Financial Summary: Bango

Year end: December (£m unless shown)

	2016	2017	2018	2019E	2020E
PROFIT & LOSS					
EUS (Non-GAAP)	132.3	271.4	558.2	1,237.5	2,475.0
Revenue	2.6	4.2	6.6	11.3	16.8
Adj EBITDA	(2.4)	(1.6)	(0.9)	2.5	5.0
Reported PBT	(4.7)	(3.9)	(3.6)	(0.2)	2.3
Fully adj PBT	(4.1)	(3.6)	(2.9)	0.1	2.6
NOPAT	(2.9)	(2.0)	(1.8)	1.8	4.2
Reported EPS	(6.8)	(5.3)	(4.0)	0.2	3.7
Fully adj EPS	(6.3)	(5.5)	(4.2)	0.2	3.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(2.6)	(0.7)	(2.3)	3.4	2.8
Free Cash flow	(6.0)	(2.2)	(4.4)	1.7	1.6
FCF per share	(9.2)	(3.4)	(6.3)	2.4	2.3
Acquisitions	0.0	0.0	(1.8)	(0.4)	(0.4)
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.1	1.2	5.2	0.0	0.0
Currency effects	(0.1)	0.0	0.0	0.0	0.0
Net cash flow	(6.2)	(0.8)	(1.1)	1.3	1.2
Cash & equivalents	5.7	4.8	3.8	5.0	6.2
Net (Debt)/Cash	5.6	4.6	3.5	4.8	6.0
NAV AND RETURNS					
Net asset value	12.4	10.7	16.0	11.8	18.8
NAV/share	19.1	16.2	22.9	16.8	27.0
Net Tangible Asset Value	6.3	4.6	4.0	3.6	8.6
NTAV/share	9.7	7.1	5.8	5.1	12.3
Average equity	14.1	11.5	13.3	13.9	15.3
Post-tax ROE (%)	(31.2%)	(30.3%)	(20.8%)	1.0%	16.9%
METRICS					
EUS growth	196.1%	105.1%	105.7%	121.7%	100.0%
Revenue growth	101.8%	58.2%	59.4%	70.0%	49.2%
Adj EBITDA growth	(22.9%)	(35.3%)	(44.7%)	(382.6%)	102.6%
Adj PBT growth	(18.6%)	(12.0%)	(19.6%)	(105.0%)	1678.9%
Adj EPS growth	(33.0%)	(13.8%)	(23.9%)	(105.0%)	1678.9%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Margin on EUS	2.0%	1.5%	1.2%	0.9%	0.7%
VALUATION					
EV/Sales	35.6	22.5	14.1	8.3	5.6
EV/EBITDA	-38.6	-59.6	-107.8	38.1	18.8
EV/NOPAT	-31.9	-46.3	-51.6	53.4	22.3
PER	N/A	N/A	N/A	660.9	37.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(6.7%)	(2.5%)	(4.6%)	1.8%	1.7%

Source: Company information and Progressive Equity Research estimates

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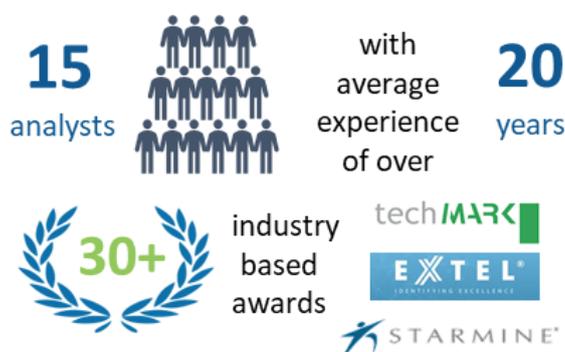
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