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TMT Update 11.02.19 (BOOM.L, STAR.L)

Audioboom plc* (BOOM.L, 1.3p/£15.3m)

Sector consolidation: Spotify accelerates move into podcasting

- Spotify confirmed the acquisitions of two podcast companies - Gimlet and Anchor - last week. The terms were not disclosed but the Gimlet deal was reported to be worth c. \$230m and Anchor c. \$50m. Spotify also announced that it had plans to spend a further \$400m to \$500m on multiple acquisitions in 2019 to accelerate its move into podcasting as a producer of podcasts and a provider of a platform for podcast creators. To put this into context, the US podcast advertising market was estimated to be worth \$314m in 2017.
- Gimlet is an award-winning media company that was founded in 2014 and includes series such as *StartUp*, *Reply All*, *Homecoming* and *Mogul*. Gimlet Creative, its in-house advertising agency, produces official podcasts for brands including eBay, Tinder, Gatorade and Mastercard, and Gimlet Pictures focuses on bringing Gimlet series to film and TV.
- Anchor is a free end-to-end podcasting platform, available on iOS, Android or the web, that enables anyone to create, distribute and monetise a podcast. As well as creative tools, it offers unlimited free content hosting. In return, Anchor takes a 30% cut of advertising revenue. It claims to power >40% of new podcasts.
- According to a blog post by Daniel Ek, Spotify's founder and CEO, the company is looking to bring people that currently listen to radio to Spotify via podcasts - the next growth phase in audio. Since entering podcasts in 2017, Spotify has become the second biggest podcasting platform and the company has found that its podcast users spend almost twice the time on the service and spend even more time listening to music than music-only users. Over time, it expects more than 20% of all Spotify listening will be non-music content.
- Audioboom has had a distribution partnership with Spotify since 2017. In the twelve months to May 2018, Audioboom reported a 10% increase in listens and live read ad inventory as a result of the partnership. At that point, 1% of Audioboom's content being made available on Spotify. All content is now available through an automated API and Spotify is its second largest distribution platform after Apple. Audioboom and its podcast partners retain 100% of the revenue derived from in-read advertising consumed on Spotify and rev shares on pre and post roll programmatic ads delivered by Spotify.

Allenby Capital comment: The acquisitions and the promise of further deals have significantly accelerated Spotify's podcasting ambitions. It also represents a stronger challenge to Apple that has been the default podcast provider for many consumers as its podcast app has been native on iOS devices since 2014. Apple has been perceived as a benign but not particularly dynamic market leader with limited investment in its app and

associated analytics. Meanwhile Google's move into podcasting in 2018 has gained little traction. Where Spotify has a significant advantage is that services both iOS and Android devices and already has a huge pool of existing music subscribers that can be offered podcast content. Finally, the acquisitions have been taken as the catalyst for a major consolidation of the podcasting market with larger companies looking to acquire creators, distributors and advertising businesses to deliver a more integrated service in a highly fragmented market. Spotify is not the first. For example, EW Scripps acquired Midroll (advertising sales) in 2015 that had itself acquired the Earwolf podcasting network in 2014 and Stitcher (podcasting app) in 2016. Audioboom is one of very few global players that offers hosting, distribution, monetisation for podcasters and has a growing library of its own content.

** Allenby Capital acts as Nomad and Joint Broker to Audioboom plc.*

Starcom* (STAR.L, 1.5p/£4.4m)

Update on Kylos agreement (07.02.19)

- New agreement with Xplosive Solutions Pty where Starcom will supply Kylos units directly to Xplosive that will use them as part of a system for the protection and tracking of livestock in South Africa. The agreement is for a 36-month period, over which Xplosive will pay a monthly fee for each Kylos unit to cover the product cost and ongoing SaaS fee. The monthly fees for the first six months are higher, reducing thereafter. Starcom expects to receive c. \$0.5m over the term.
- This agreement replaces the original agreement announced in October 2017 that was expected to be worth \$3.5m over three years, on the basis of 15,000 Kylos Forever units per year plus a further \$0.8m in SaaS revenue for South Africa and Australia, equivalent to c. \$1 per month per unit connected.
- In July 2018, Starcom announced that there had been some delays caused by internal changes, but Xplosive was in the final stages of development with its customer to produce a collar with initial orders expected later in the year.

Allenby Capital comment: The new agreement is much smaller than the initial 2017 agreement but Starcom is now supplying units directly to Xplosive. The two companies have been working together to develop a cost effective and reliable system to offer security and theft prevention to the South African cattle industry as well as facilitate the process of rounding up cattle. Xplosive is an established provider of security systems to South African farmers where cattle theft is a significant issue. The agreement also demonstrates that Starcom's products can be adapted for a host of applications.

** Allenby Capital acts as Nomad and Broker to Starcom plc.*

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