DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH•PRECISE•ACTIONABLE

"Stop interrupting what people are interested in and BE what people are interested in."

– Craig Davis, Cofounder Sendle

Indian AdTech

Large opportunity

600 mn
Number of Smartphone users

93 bn$
eCom market size in India

3 bn$
Digital ad spend, Mobile is ~50% of this

Getting exponential

12.3bn
App downloads in India

100 mn
Ecom shopper in India

33%
Mobile ad spend growth

Affle at Glance

72 mn
Conversions in FY20

2.1 bn
Connected devices reached

550 bn
Data points processed

Appnext at Glance

300 mn
Devices

60 bn
Monthly recommendations

60 k
Apps with its SDK

Affle (India)

VP - Research: Rahul Jain
Tel: +9122 40969771
E-mail: rahulj@dolatcapital.com

Associate: Divyesh Mehta
Tel: +91 22 40969768
E-mail: divyesh.mehta@dolatcapital.com

DOLAT CAPITAL

November 03, 2020

Intentionally Left Blank

Affle India

BUY

Initiating Coverage

'Early mover' and also 'Built to Last'

Affle India is behavioral analytics led contextual advertising technology company operating in high-growth Mobile Advertising industry powered with a ROI-centric customer acquisition model. Affle is well placed to capture growth from increasing smartphone penetration and velocity of ecommerce transactions that would drive shift towards mobile based digital advertising in emerging markets. The Tech stack, breadth of product portfolio, exclusive access on select OEM devices (although not contractually) and booming vernacular & Omni channel capabilities via acquisition brings more capability to capture opportunities within Digital spends. Affle is rightly positioned in the highly-populated but moderately-penetrated market (India-Indonesia) with an early mover advantage in Digital Ads. We believe Affle India offers a unique interplay of Digital + Mobility + Analytics theme that can offer multi-year-high-growth opportunity. We believe it can sustain/accelerate its current growth momentum and thus we model in revenue/EPS CAGR of 26%/27% over FY20-25E with a Buy rating and DCF based TP of Rs3,300 (implies ~59x FY23E earnings – 2.2x on PEG basis).

Key Investment Arguments

Mobile-becoming most important Ad-real estate: With increasing smartphone penetration (600mn connected devices) and increased screen time (~8 Hours), Mobile is now becoming a non-discretionary advertising medium for advertisers (Startups and Traditional players alike). This trend, coupled with increased frequency of conversions per users (more app installs, purchases per user, more registrations) gives exponential potential to Affle for multi-year high growth performance.

Strong platform powering unique pricing model: Affle is one-of the few players that completely operates on outcome-based model, which means it get only paid for delivering conversions called CPCU model. This model attracts advertisers because it eliminates the advertising efficacy risk for them and locks down the ROI metric or fixed customer acquisition cost (CAC). Affle India enables this using the strong tech stack which enables the data-distilling ability (identifying shoppers) and avoiding ad-fraud using M-FaaS (its' Proprietary software).

Scaling up on value-chain: To ensure sustained growth momentum Affle has been adding up more capabilities to scale up its total addressable opportunity and ride through the entire business value-chain. It has done four acquisitions and few strategic investments to enhance capabilities on re-targeting, unmatched access on OEMs and proactively investing in upcoming key areas such as Connected Devices and Vernacular users.

Scrip Details	
CMP	Rs 2,654
Target / Upside	Rs 3,300 / 24%
NIFTY	11,669
Scrip Details	
Equity / FV	Rs 255mn / Rs 10
Market Cap	Rs 68bn
	USD 909mn
52-week High/Low	Rs 3,131/ 1,412
Avg. Volume (no)	87,069
Bloom Code	AFFLE IN

Price Performance	1M	3M	12M
Absolute (%)	(7)	50	90
Rel to NIFTY (%)	(7)	46	95

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	68.4	68.4	68.4
MF/Banks/FIs	17.7	17.3	16.5
FIIs	7.5	7.6	8.4
Public /	6.3	6.7	6.7

Affle (India) Relative to SENSEX

VP - Research: Rahul Jain
Tel: +9122 40969771
E-mail: rahulj@dolatcapital.com

Associate: Divyesh Mehta
Tel: +91 22 40969768
E-mail: divyesh.mehta@dolatcapital.com

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,494	3,338	4,796	5,952	7,276
Growth (%)	49.1	33.8	43.7	24.1	22.2
EBITDA	703	879	1,181	1,546	1,972
OPM (%)	28.2	26.3	24.6	26.0	27.1
PAT	488	655	904	1,159	1,433
Growth (%)	75.4	34.2	38.0	28.2	23.6
EPS (Rs.)	20.1	25.7	35.5	45.5	56.2
Growth (%)	75.4	27.8	38.0	28.2	23.6
PER (x)	132.0	103.3	74.9	58.4	47.2
ROANW (%)	94.9	43.5	32.9	30.7	28.2
ROACE (%)	88.9	35.7	25.0	23.8	24.0

INDEX

Company Summary

Affle India is a consumer behavioral analysis led contextual Advertising Technology company. Affle India operates in high-growth Digital Advertising industry on Mobile using a differentiated RoI-centric customer-engagement model (get paid on delivering outcomes) partnering with OTT, Startups, eCommerce and Advertising Agencies.

Company is founded by Mr. Anuj Khanna Soham (CEO) who has been a Tech-entrepreneur for last 19 years; has successfully steered business through ever-evolving Mobile Technology over the years and has remained Ahead of the Curve envisaging all potential threats & opportunities. Affle India is operating across the Globe with India/Indonesia being its largest market wherein it has huge tailwinds in terms of low Internet/ecommerce penetration. Affle India is one of the leader amongst the pure-play Ad-Tech players in the country and achieved Revenue of Rs3.3bn in FY20 through 72.3mn converted users for its clients and earned Rs.655mn in Profits.

Exhibit 1: Affle Journey - Chronology

Year	Event
2005-06	Affle founded in Singapore, set up team in Sg, India and UK
2007	Launched SMS 2.0 - powering SMS with browser type functionalities
2008	Launched Search & Social Network discovery over SMS
2010	Launched Pinch - Cross Platform messaging App
2011	Ad2c - one of the earliest mobile focused agency launched
2012	Launched Ripple - Cross screen mobile monetisation platform
2013	Launched ad2campaign - data centric mobile marketing platform
2014	Arc platform - reusable components library for App development
2015	Launched Maas platform - Mobile Audience as a Service
2016	Launched mTraction - Data Analytics & CDP Platform
2017	Launched mFaas - Fraud Detection Platform
2017	Launched TVSync - TV linked digital Advertising
2018	Acquired Vizury (Retargeting CRM) for Rs293mn in Sep'18
2019	Acquired Shoffr (O2O) for Rs.49mn in Feb'19.
2019	Acquired Revx (Retargeting) International business for Rs 339mn in Apr'19
2019	Launched Vizury Engage 360 (Omnichannel Marketing)
2019	Went public - IPO size Rs.4.6bn (Fresh issue of Rs0.9bn)
2020	Acquired Mediasmart for Rs.401mn on 28 Feb'20 - Europe based programmatic and proximity marketing platform
2020	Acquired 67% stake in On Device App-discovery player Appnext for $17.3mn
2020	Acquired 8% stake in IndusOS an App-store (features on select OEMs) for $2.8mn in July'20.
2020	Acquired 8% stake in Bobble AI, a unique vernacular-themed keyboard (default on select OEMs) for US$2.7mn in Aug'20.

Source: DART, Company

Investment Thesis

Mobile-becoming most important Ad-real estate

The increasing smartphone penetration in India (2019: 37% to ~60% by 2025E) and growing internet penetration in rural areas (Currently: 32 per 100 people) along-with gradual increase in velocity of conversion per users (that is increased ecommerce due to increase in per-capita-wallet-spends online) collectively offers exponential potential opportunity that could drive multi-year-high-growth prospect. As Mobile-screen is becoming the most important option to Advertise any consumer offering, the budgets on Mobile-ads are expected to grow strong given these targeting is more contextual and personalized. Mobile advertising is becoming a non-discretionary activity (getting used for both Sales as well as Marketing operations) for large set of advertisers given its better reach (increased Screen time during/after Pandemic) and ability to target to specific users (based on Location, based on intent, behavior or context). For B2C companies, the narrative is now "Default is Mobile or "First Channel is Mobile". Smartphone cost v/s personal computing cost in Emerging Economies also make mobile as ideal option for Internet access.

Exhibit 2: Key statistics for Ad-Tech opportunities

Particulars (In Mn)	India	Indonesia	US	UK	China
Population	1,366	271	328	67	1,398
Internet Users	688	171	288	65	855
Smartphone Users	502	156	260	56	851
Smartphone Penetration (%)	37	58	79	83	61
eCommerce Users (mn)	100	100	224	55	749
Average spend on Ecommerce ($)	61	89	1,952	1,639	634
Internet Advertising ($Bn)	4	1	130	20	67
Advertising Industry ($Bn)	14	3	246	31	90

Source: DART, Company, TRAI, WorldBank, Newzoo, Datareportal.

Market Potential is huge

Market Potential is driven by smartphone penetration and frequency of engagement/transactions led conversions per users. Improved penetration of smartphones and increased screen-time will drive higher conversions per user. This two-fold catalyst gives potential for continued high growth for longer period. Penetration of smartphones is a gradual story over 5-6 years. For instance, number of Smartphone users in India are just 600mn and number of shoppers are about 100mn as of Year 2020, which the management believe will gradually go to 1000mn users and 300mn shoppers over next few years (this trend got further accelerated by Pandemic).

Frequency of Conversions per User: With the average screen time increasing multifold during the pandemic and general increase in activities done on smartphones. Combining both of these factors there has been improved stats on number of conversions per users (More shopping, more app installs, more clicks). The velocity of conversion is likely to move up as users interact more with their smartphone and number of shoppers' increase. The velocity of conversion is driven by increased internet usage. Global Internet Protocol traffic is expected to increase from 45,000GB per second to 150,700GB per second in 2022.

Potential in India (Profiled over 600mn connected devices): India has about 502 million smartphone users (Source: TechArc), implies over 39% penetration for India in 2019. The potential market for Affle is likely to increase with Declining market share of Feature-phones given declining cost of smartphones (sub-100$; will go even half from these levels in next 1-2 years). The number of smartphone users in the country is expected to reach a count of 859 million by 2022 from 468 million odd users in 2017 (Source: Assocham-PWC). Similarly, KPMG expects 410mn more smartphone users in India by 2025. With higher smartphone penetration, the number of shopper also increase over time.

Next frontier - Tier 2 & 3 Cities: Tier 2 and 3 cities users have been largely targeted as the next potential 100mn e-commerce users by various online businesses. Low data cost for Internet and smartphones penetration have increased in tier 2 and 3 cities (400mn feature phones users will slowly move to smartphones). We believe from an advertising and conversion standpoint, Tier 2 and 3 cities will be more difficult to convert and thus the CPCU rate would remain stable despite the lower spending capacity of these consumers. Also, Affle does have an advantage of going early on and building consumer profile of spending users and to power-up his differentiation it is adding significant capabilities in the vernacular offerings and has done two strategic investments (8% stake bought) viz. IndusOS (vernacular Appstore) and Bobble AI (vernacular keyboard) in last few months.

Potential in Emerging markets (Profiled over 370mn connected devices): Affle's growth potential prospects in Other Emerging Markets is based on same underlying hypothesis that it has in India. Most Emerging markets growth will also be driven by 1) Smartphone Penetration 2) Low Data Cost 3) Increased Screen time 4) User Acquisition spree by Startups. Affle did 10.6mn conversion in Emerging Market (largest share in Indonesia).

Potential in Developed Markets (Profiled over 800mn connected devices): Affle's growth and reach in International region will be largely driven by its acquisition strategy (to acquire customer base and presence) and then building on those capabilities. Example: Acquisition of Mediasmart gave broader access to Europe/LATAM region. In terms of shoppers' penetration, 80%-85% of are shoppers in developed markets.

Market Focus: The primary strategy of the company is to establish dominance in India and Southeast Asian Markets first and at the same time coupled with gradual focus on Latin American and African Market. The other markets where it has plans to foray deeper includes North America, Europe and Japan, Korea and Australia.

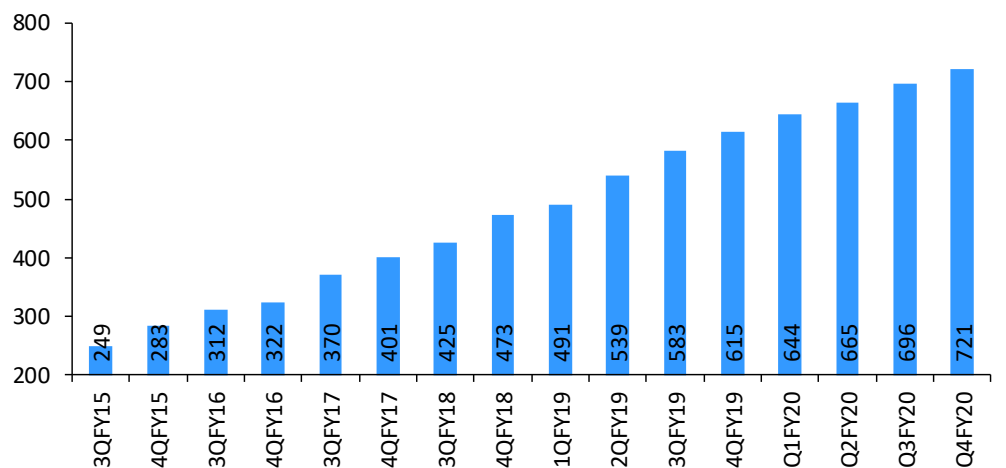**Exhibit 3: Smartphone Users and Penetration Globally**
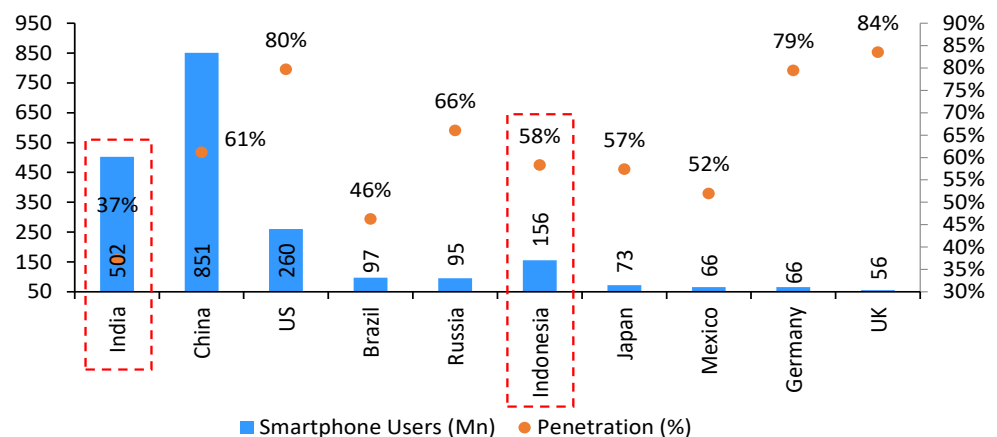
Source: DART, Company, Newzoo, TechArc

Exhibit 4: Urban Internet Penetration has peaked and Rural is to grow (Vernacular User base is likely to grow) - India
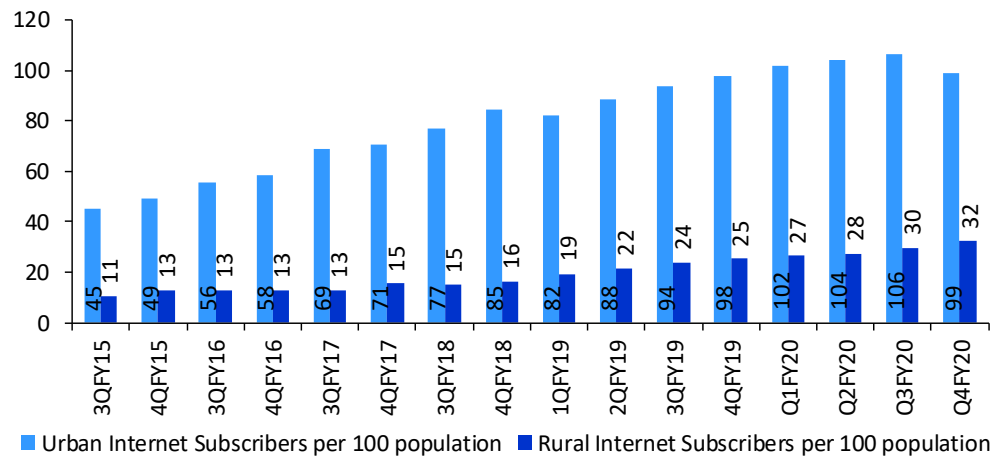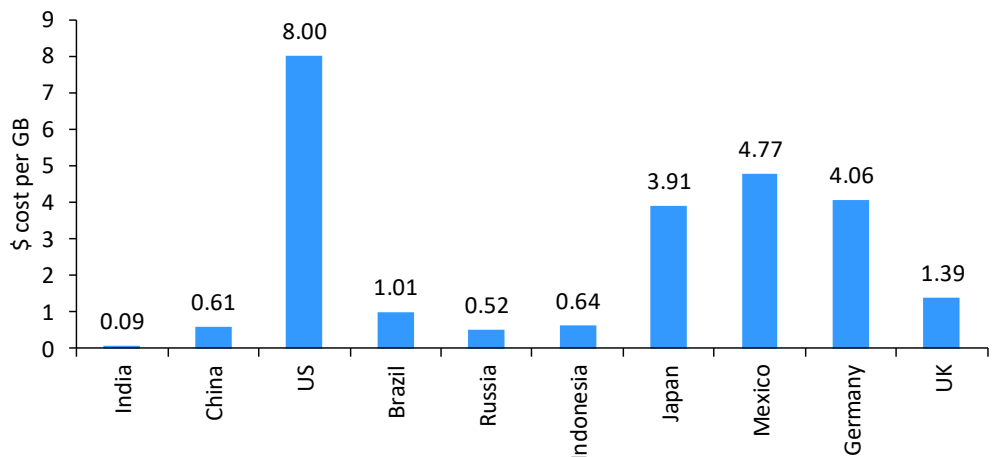

Source: DART, Company, TRAI

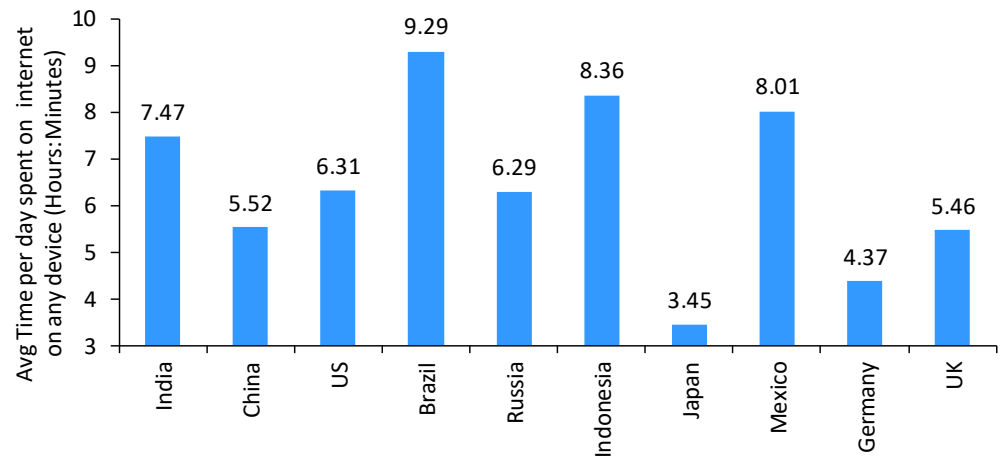**Exhibit 5: Wireless Internet Users (Mn) in India**

Source: DART, Company, TRAI

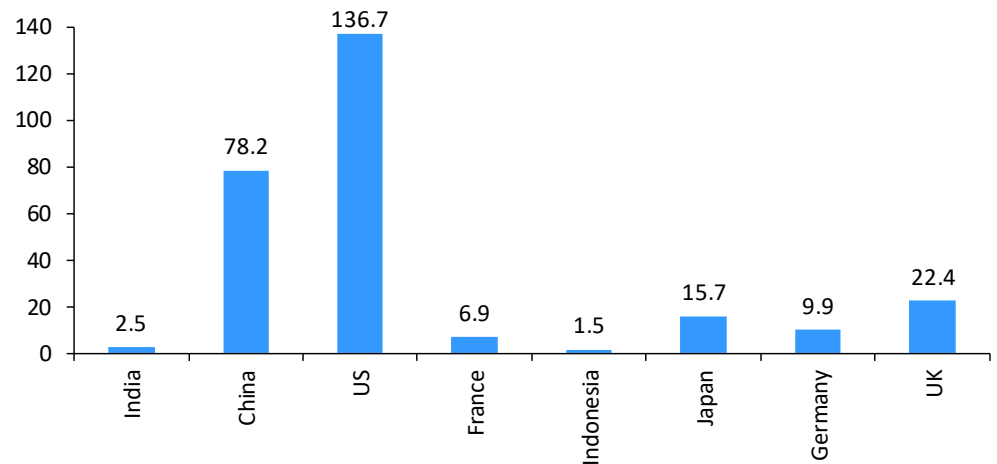**Exhibit 6: Mobile Data Cost in India is lowest Globally (in $ terms)**

Source: DART, Company, cable.co.uk

Exhibit 7: Avg. time per day spent using internet on any device (Hours: Minutes)

Bar chart — Avg Time per day spent on internet on any device (Hours:Minutes):
- India: 7.47
- China: 5.52
- US: 6.31
- Brazil: 9.29
- Russia: 6.29
- Indonesia: 8.36
- Japan: 3.45
- Mexico: 8.01
- Germany: 4.37
- UK: 5.46

Source: DART, Company, businessfibre.co.uk

Exhibit 8: Indian Digital Ad Industry has a long way to go

Bar chart — industry size in $bn:
- India: 2.5
- China: 78.2
- US: 136.7
- France: 6.9
- Indonesia: 1.5
- Japan: 15.7
- Germany: 9.9
- UK: 22.4

Source: DART, Company, statista.com, industry size in $bn

Exhibit 9: Connected devices (Mn) profiled by Affle India (region-wise)

Bar chart — Connected devices (Mn):
- India: 598
- South East Asia: 370
- Japan, Korea, Australia: 121
- Europe: 285
- North America: 410
- LATAM: 183
- Middle East & Africa: 182
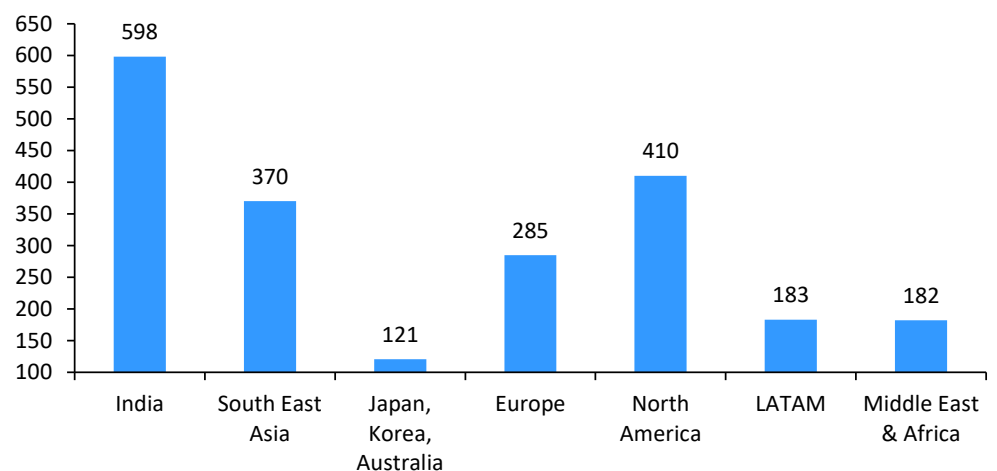
Source: DART, Company

Placed in the fast-paced Digital Industry

Affle India is present in Ad-Tech Industry (Digital) that is growing at a fast cliff and is expected to reach INR 282Bn by CY22 (CAGR of 20% over CY2019-22). Ad Spends are moving from traditional advertising to digital spends to target consumers effectively. Globally, advertising industry is witnessing increased share of digital ads in total advertising spends and Indian Advertising industry is also following the same trend, with 20% of all advertising spends now attributed to digital segment in 2019 (but still way below median share of digital spends at about 34% globally). This trend is expected to see acceleration hereon, as India with its low smartphone penetration, and declining data cost would see significant addition to M-Commerce/shoppers. Affle India is likely to be key beneficiary of this trend as it is one of the largest pure-play player in this segment in India outside of Tech-giants (Google and Facebook – both are more like Self-serve platform) and is an ideal partner of choice for companies look for partner with customized approach.

Exhibit 10: Improving Share of Digital Spends in Advertising in India (Rs. Bn)
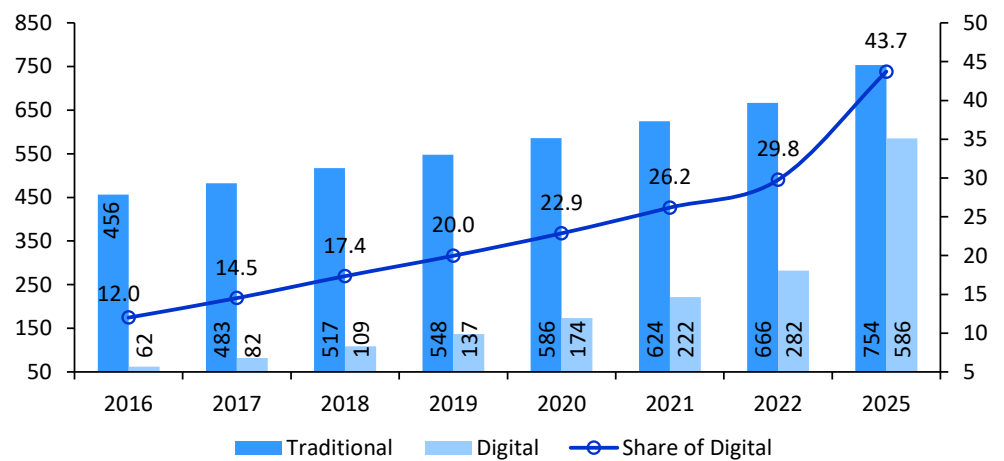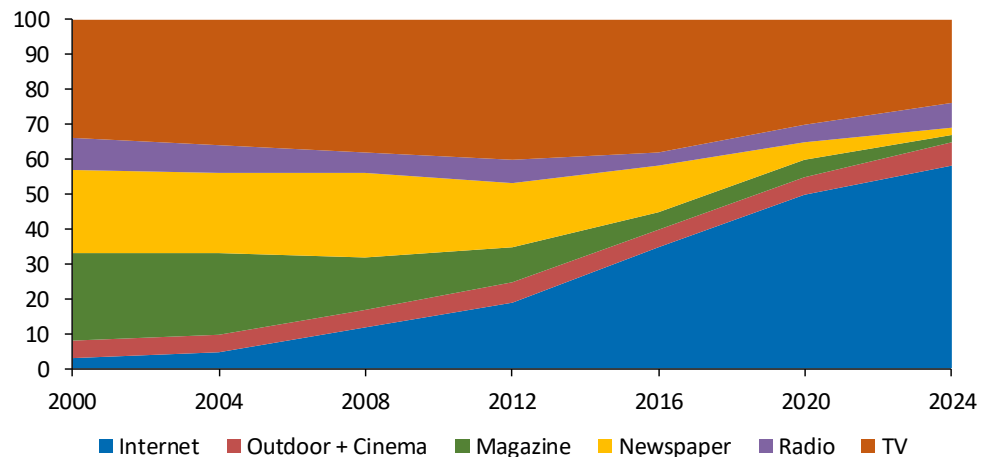

Source: DART, Company, based on CY year, Dentsu 2020 Advertising Outlook, Pre-COVID Estimates

Exhibit 11: Digital Advertising spends (Rs bn) in India and YoY Growth trends
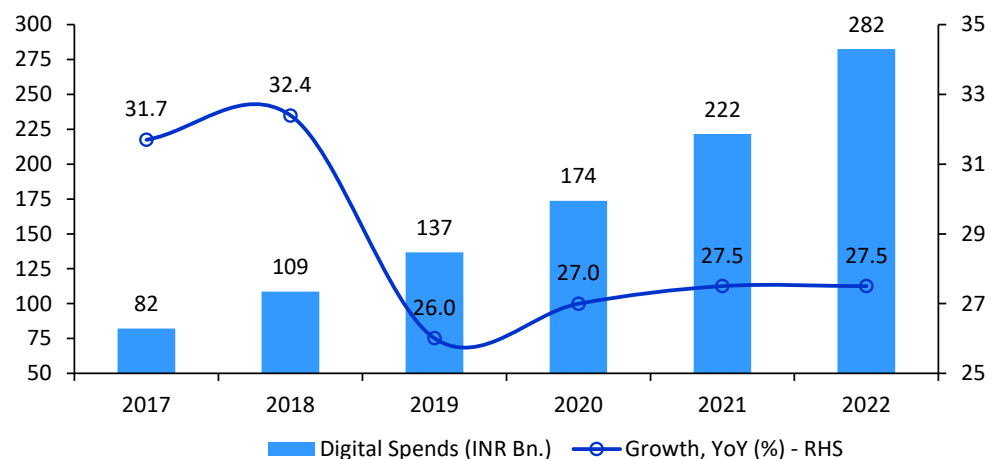
Source: DART, Company, based on CY year, Dentsu 2020 Advertising Outlook, Pre-COVID Estimates

**Exhibit 12: Internet taking lion share in Global Advertising spends (%)**

Source: DART, Company, GroupM Dec 2019 Advertising Outlook

Digital Advertising: History, evolution and mechanism

Changing dynamics of Digital Advertising Spends

- **Screen-time is increasing:** Dynamics for Indian Advertising space are changing with increasing relevance of Digital Ads. With strong surge in usage of mobile phones, Mobile First approach is necessary for companies due to the increased availability of consumers on mobile (screen time).

- **Impact on TV-ads is still limited**: Digital is eating pie of other Ad-channels however; **TV** continues to be key medium for advertisers given unprecedented reach both in Urban (87%) and Rural (52%) households – (Source: Broadcast Audience Research Council) and limited cord cutting despite rise of OTT players. **Print** on the other hand is facing stiff competition given evolving shift towards digital readers.

- **Better targeting**: With Real-time-bidding (RTB) by vendors and availability of users on screen; Digital spends have much better targeting and thus avoid spill-over impact on ad spends which exists across traditional media platforms.

- **High growth areas in Digital spends**: Social Media spends are growing given low cost of data that has led to significant jump in time spent on Smartphones (Average of 2.4 hours per day - Dentsu). Social Media spends form large part of advertising; which along with rise of OTT platforms is driving increased usage of Video ads (YouTube) – these segments are clocking 30%+ growth.

- **Mobile preferred over PC:** In CY2019, 47% of Digital ad spends were on Mobile devices and it is anticipated that the mix if further expected to go up in its favor over PCs in markets like India.

- **Digital Advertising is turning non-discretionary:** Digital Ad spends are not discretionary spend for many online-led businesses and E-commerce startups. While traditional businesses are also realizing the edge of spending ad-budget contextually personalized on Mobile screen and are thus allocating higher share of incremental budgets to mobile digital advertising. Historically, Budget impacts have hit traditional ad-budgets more compared to Digital spends.

Exhibit 13: Indian Ad Industry size (bn $) by categories and growth outlook – Digital continues to remain the Fastest growing areas
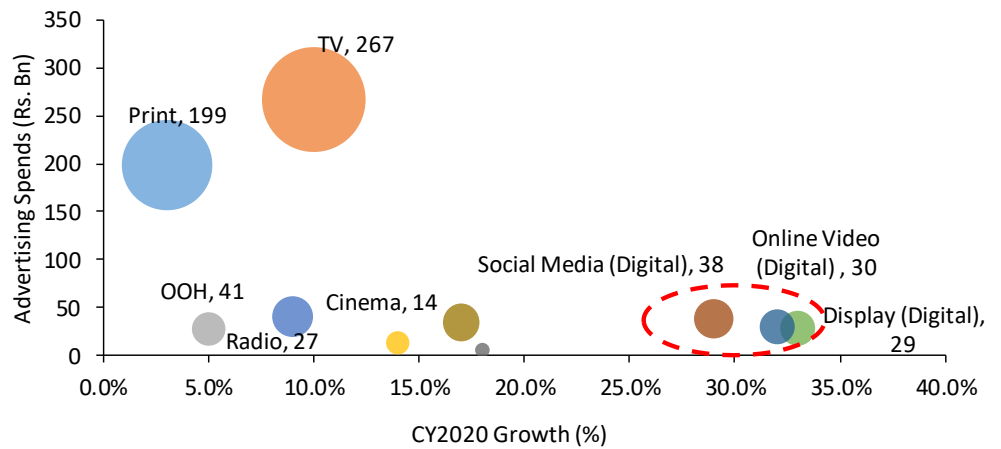
Source: DART, Company, CY Year based, Dentsu 2020 outlook, Pre-COVID

Exhibit 14: Mix of Digital Spends (Red Highlights areas where Affle spends)
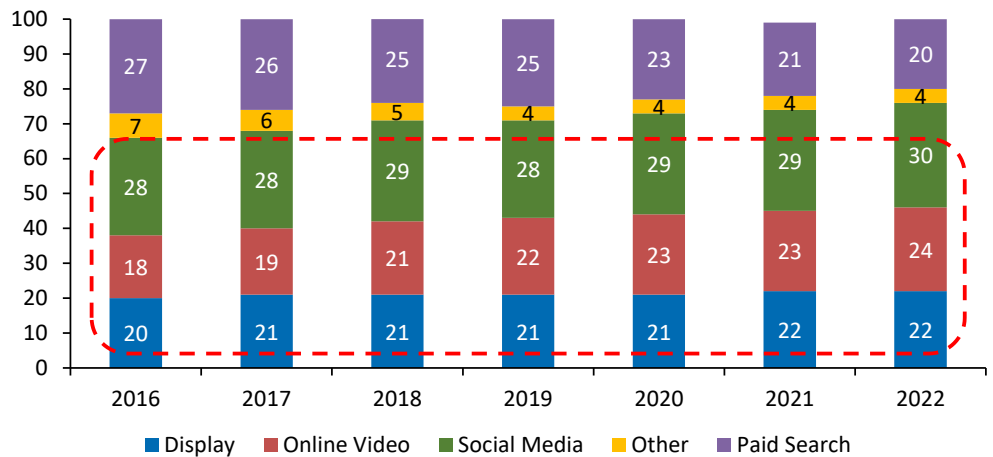
Source: DART, Company, CY year based, Dentsu Outlook 2020, Pre-COVID

Ad-Tech Revolution History

Indian Ad-tech Revolution started in 2014-2015 when startups (backed by fresh VC funding) started a customer acquisition spree. This was largely driven by large number of ad-tech players entering the race to deliver 'customers acquisition' (actually app-installs) to startups. The mad rush led to instances of creation of fake users and fraudulent traffic by many ad-tech, which led to introduction of use of ad fraud protection and enquiry (credibility) of users (started in 2016). This event led to significant wind-up of small time fringe players while the credible players with strong anti-fraud capabilities flourished such as Affle (launched mFaaS solution an ad-fraud solution in 2017). Affle has innovated on continuous basis and evolved from SMS based business with TSPs to formidable Ad-tech player with unique CPCU offering backed by powerful DMP/mFaaS.

Exhibit 15: CMO Survey: What are the biggest strategic opportunities you foresee over the next 2-3 years?
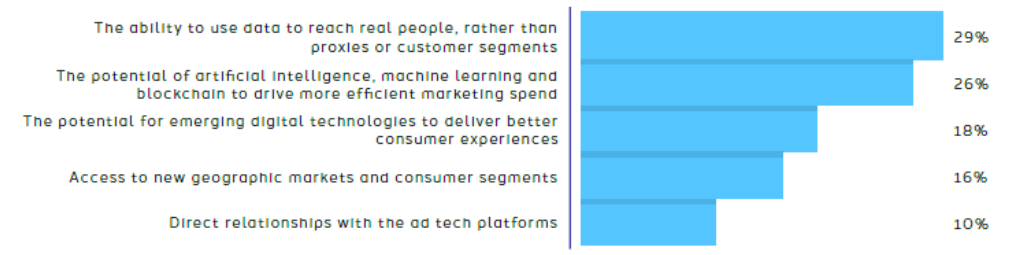
Source: DART, Company, Dentsu 2018 CMO Survey

Exhibit 16: Globally Companies incremental spending is Digital, target of Budget cuts is largely limited to traditional advertising spends (Growth YoY)
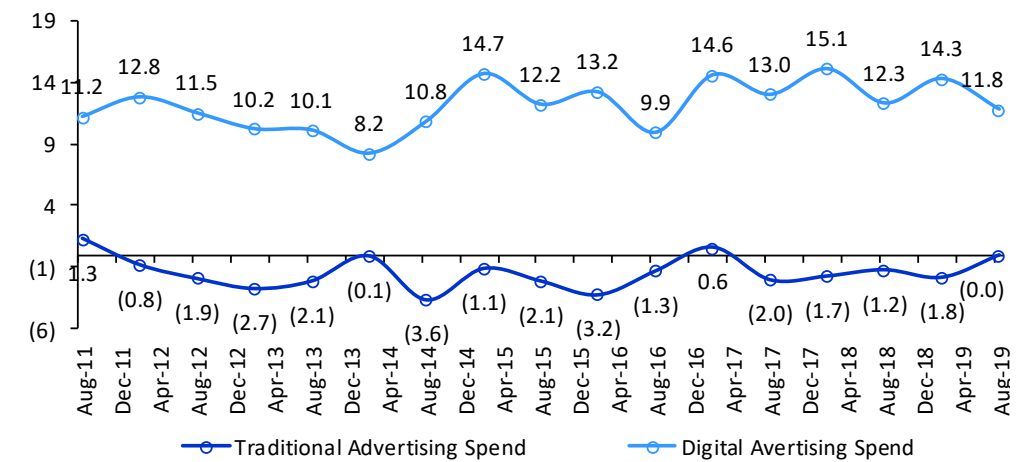
Source: DART, Company, The CMO Survey –August, 2019

Use of tech in Advertising: Real Time Buying

Ad Tech is in the center of operations for the digital advertising ecosystem: that consists of Advertisers, Demand-side platforms (DSP), Ad Exchanges, Supply-side platforms (SSP), and Publishers. Supply and demand of Ads is managed through real time selling of ad spaces powered by Ad Exchanges. The bids are driven by the data shared (behavioral and device id data) by the vendors (website/Apps) to the DMP via DSP and SSP to determine the bids.

Real Time buying is automated purchase of ad spaces via ad exchanges using Appographic data (type of apps used, clicks, usage) of consumer pattern at a large scale. RTB allows targeted marketing based on campaign requirements.

Programmatic advertising helps to reach a more specific and targeted audience that is interested specifically in what the brands have to offer at a larger scale and with high velocity.

Digital Ads moving to Programmatic Buying

Currently, 41% of all digital spends are done with use of programmatic media buying. Dentsu expects the share of RTB based buying to reach 76% by CY2022. The adoption of programmatic buying is expected to evolve due to increased flexibility, greater control and smart optimization capabilities in favor of increased ROI. With large base of Publishers (more new apps getting launched) and user data available to better target prospective customers. RTB within Digital Advertising will scale up very fast due to Real time nature and more effective targeting.

How does RTB ecosystem works

1. **Advertisers:** Advertisers plan and create campaigns to target specific set of users for their advertising campaign. They might use their first party data to target users or may use third party data (vendor data).
2. **DMP:** Data Management Platform (DMP) is a software platform that advertisers use to collect and store first and third party data for campaigning. It is the processing backbone for RTB.
3. **Demand-side platform (DSP):** Platform that allows advertisers to purchase ad space through an ad exchange. Advertisers use a DSP to run and monitor an advertising campaign.
4. **Ad Exchange:** Platform which hosts ad spaces from advertisers and allows DSP to buy ad spaces on real time basis.
5. **Supply-side platform (SSP):** Platforms that allows publishers to manage and offer ad space to advertisers, marketers, and other parties interested in purchasing ad space.
6. **Publishers:** Publishers are websites/ Apps that have inventory and sell the ad inventory on Ad Exchange.
7. **Media Agencies:** Media Agencies manages the campaign and outsources Ad Campaigns by Advertisers to Ad-Tech players.

Process Flow:

1. **User opens app/ website:** When a user arrives on a website/app, Programmatic advertising process starts.
2. **Sending cookie/ user data to SSP:** In response to a user arriving on the website, Publisher sends cookie/ user data to an SSP.
3. **Analyze Users' data:** SSP analyzes users' cookie / data. The goal is to learn as much as possible from user and place the data in an appropriate ad exchange.
4. **Evaluate:** DSP uses platform data and its own DMP based data and gets user's worth.
5. **Bidding:** DSP submits bid to the ad exchange based on value assigned. Higher bidder wins the bid.
6. **Deliver:** With the winner picked, SSP/Platform shows the ad to the user.

All the process happens over few split seconds, while user is loading the webpage or an App.

Exhibit 17: Process Flow throughout the Consumer journey
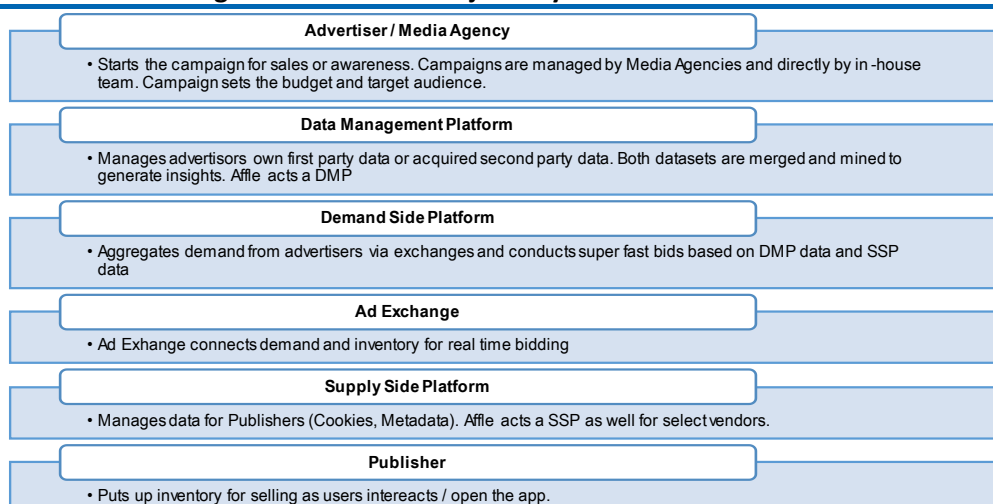
Source: DART, Company

Exhibit 18: Process Flow Diagram
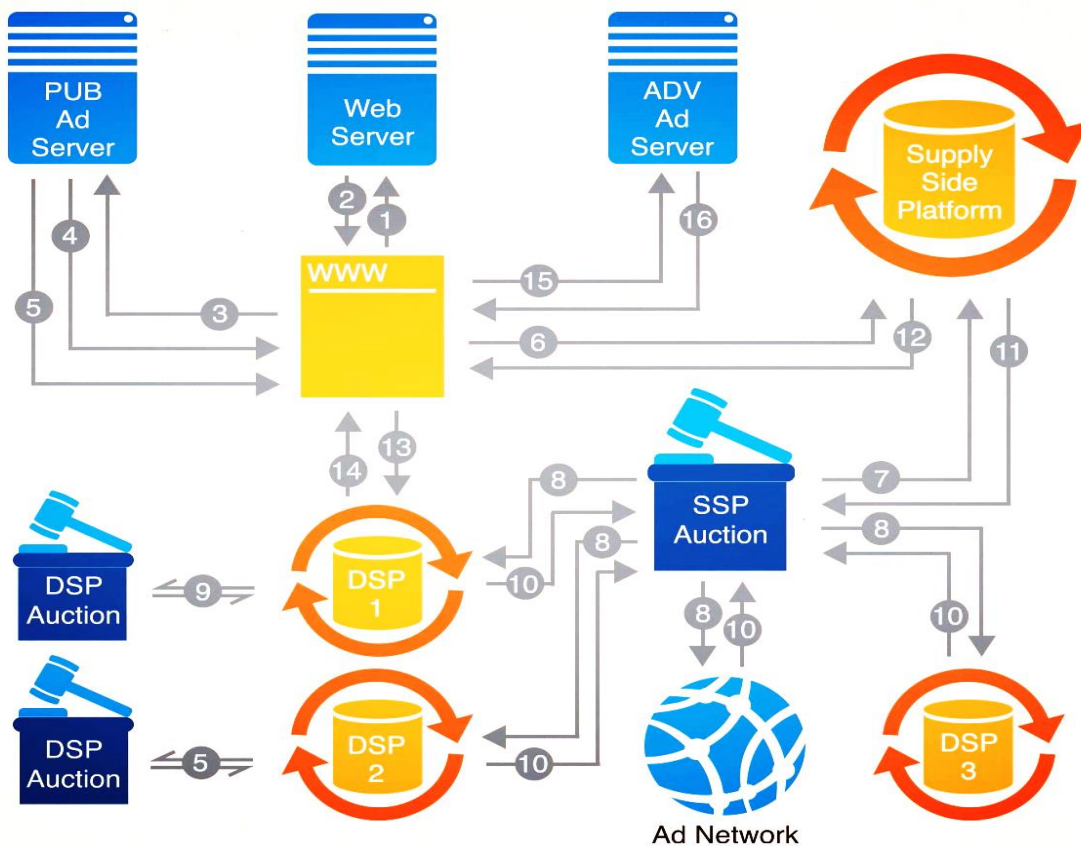
Source: DART, Company, merkleinc.com

Exhibit 19: Various key player in Ad-Tech ecosystem

Digital Ad Giants	DSP	SSP/Ad exchange	Advertising Agency
Google	Tradedesk	Pubmatic	WPP (GroupM)
Facebook	Freakout	Teleria	Publicis
Amazon	InMobi	Openx	Omnicom
Microsoft	Vertoz	Rubicon Project	Dentsu Aegis Network
Baidu	Brightroll	Criteo	Interpublic Group (IPG) Mediabrands
Tencent		Smaato	Havas
Alibaba		AdColony	Interactive Avenues
		Fyber	Madison
		Mopub	M&C Saatchi Mobile

Source: DART, Company

CPCU pricing converts challenge into virtue

Strong platform powering unique pricing model: Affle is one of the few players that largely operates on an outcome-based model, which means it get paid only for delivering conversions called CPCU model (Cost-per-converted-user) also known as Customer Acquisition Campaign (CAC). CPCU model is completely Return-On-Investment based model and is incrementally becoming preferred option for advertisers compared to other mass-model such as Click-based, Impression-based pricing. Affle has very strong Data Management Platform (DMP) that possesses robust data-distillation ability coupled with very potent anti-fraud detection tool '**mFaaS**' that combats unwanted Bots-malware-automated scripts (Example of its prowess is such that its DMP is able to find the 15% shoppers out of 600mn odd smartphone users in India). Based on its years of learning company has profiled millions of unique users into 100 different classification based on their persona based on their behavior on App-use (Appographic Data) and mCommerce (Ex: Shopper, foody, fitness-freak, traveler, investor and so on). The CPCU Model attracts advertisers as it locks down the ROI metrics for them and gives them a fixed acquisition cost (incrementally getting into Marketing segment also). The business model attracts advertisers and the tech enables the business model. This unique Tech-strength has helped it achieve robust conversion that translates into Gross margins of 42.4% and OPM of 22.3% in FY20.

Genesis of CPCU

The genesis of this unique model came from CEO's early experience with his first business wherein he developed Customer Management System for Dell Computers. While building this application he learned that the most paramount thing for a client is anything that boost its sales, and thus he evolved his business into Pay-per-acquisition model.

Excerpts from Anuj Soham *"The advertisers will eventually ask for ROIs. Advertisers would spend for marketing with a clear objective to drive a conversion from the end user. I believe the ROI linked business model will become a lot more demanded by the advertisers, as Affle goes and educates about it significantly. Therefore, programmatic should win and conversion linked programmatic should become a greater success story. My conviction is very strong on that business model being a competitive advantage for us.*

Salient features of the CPCU model

- **Types of Conversion:** While the industry is dominated by players operating on clicks, views and impressions, Affle is well differentiated as it drives CPCU based conversions for advertising campaigns. Affle receives fixed amount when a pre-defined user activity is complete (purchase, app install, clicks, add to cart, etc.). Affle spends on ad inventory and runs advertisements on various platforms and receives revenue only for the successful conversions.

- **Fixes Client's customer acquisition cost:** The risk of conversion and ad frauds is managed on Affle's end and advertisers are free from risk of low conversion, fake users, fake clicks, etc. In its essence, it is a flat fee user acquisition model or outcome based pricing model. Advertisers prefer such user acquisitions model because it eliminates the risk of conversions and frauds for them. It is the structure of this model that attracts advertisers as it gives stronger visibility of ROI and fixed acquisition cost.

- **Appographic data key to accuracy:** Success of CPCU model largely depends on accuracy of prediction model based on algorithm that process the user data Affle has acquired over time to perform distillation on its user funnel and target the shoppers from from ad-fraud (fraudulent traffic).

- **Deep science based Data Distillation:** The prediction model depends on Affle's ability to successfully mine user data (vendor data and first party data in case of re-targeting) including data that is device identifiers and interactions of consumers with shopping app or other interactions with vendors' websites or ads, information about apps used, clicks or other actions initiated, in-app actions and purchases by users. This data mining filters the data points /connected devices and builds a profile of customers which Affle largely targets for targeted advertisements (~235mn E-comm shopper's over the 2Bn consumer profiles).

- **Anonymized data profiling**: The strength of this algorithm is largely dependent the data points which are measured and tracked overtime and ability to do active filtration of the connected device behavior to find the legitimate shoppers. A collection of data points which is a combination of a) intent data, b) transaction data, c) Appographic data and d) behavioral data - of a user makes up to his **Anonymized Profile** which determines the likelihood of doing the required interaction.

Exhibit 20: Direct Sync to Services - Securely Transfer Data to Marketing Channels
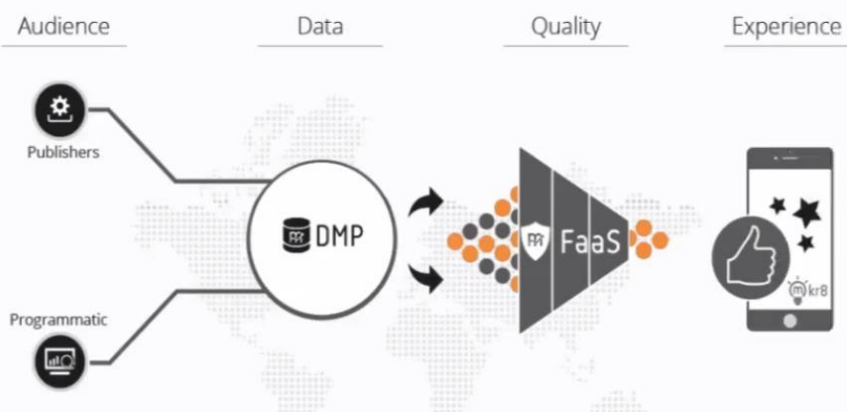
Source: DART, Company

Ad-fraud (mFaaS)

Affle developed mFaaS in June 2017 to tackle ad-fraud issues (rated as best big-data platform by IAMAI). mFaaS platform processes large amounts of data to detect patterns of indicative or definitive fraud on a device/network. It detects and flags potentially fraudulent conversions and transactions (click spamming, conversion hijacking, App version frauds, BOT/simulator activity and many Internet Protocol (IP) related fraud types).

Ad-fraud has been a pain point for advertisers as they believe 20% of their spends are subjected to ad-fraud and most expect ad –fraud to increase (source: MMA Survey). In India since 2015-17, Ad-fraud has increased boosted with fake installs and fake clicks (partially led by install and new users acquisition spree by startup players). With advertisers acquiring customers via smartphones, Mobile remains the riskiest channel for ad fraud and Affle reduces that risk for advertisers and manages ad-fraud on its' own platform. Some sources even believe that 30% of all interactiondata is non-human and many apps do have capabilities to use robotic-actions on the background even when the user is not using the app.

While the issue has been largely known to clients (advertisers), but in the CPM/Impression model the clients ends up paying for fraud-based clicks and thus are using third party vendors for verification for actions / click / installs. However, Affle with his CPCU model holds the risk of ad frauds and has thus developed mFaaS for ad fraud protection. Affle's ad-fraud protection ability gives it a major advantage to protect itself against fake traffic and deliver campaign KRAs (conversions) in a profitable way.

Exhibit 21: Client Case Studies

| Company	Comment
Meesho	Meesho used Affle's DMP platform to target users during its campaign in Jan to June 2019 wherein it has achieved 117% MoM order growth, 7x Orders per Install.
Dunzo	Affle used its' DMP data (Behavioral, Appographic and Transactional Data) to identify power users for Dunzo. During the campaign (March - July 2019), ti saw 84% increase in customers on boarded and 20% MoM increase in orders.
Zivame	Affle combined with Vizury's retargeting delivered (during June to Dec 2019) 183% MoM growth in Revenue, In-App Conversion of 6.5%, 3x Reduction in Cost per transaction.
Wynk	Affle with its' campaign in Feb 2018 to May 2018 delivered 1mn users to Wynk, 14% increase in active rate of users, 28% increase in quality of users.
Alt Balaji	Affle with its' campaign in April to August 2017 acquired 2mn users, and made AltBalaji reach Top 4 apps in entertainment apps (App Genie).
1MG	1MG sees Affle as a key partner in App acquisition
PolicyBazaar	Affle's user acquisition expertise, backed by AI & ML enabled platforms helped it grow by almost 3x.

Source: DART, Company

Tech stack enabling CPCU Model

Technology is largely based on strong data distillation funnel and fraud protection. Combination of identifying the shoppers from the non-shoppers and protection against ad fraud is what makes the CPCU model successful.

- **Data Distillation:** There are 600mn connected devices (Affle expects to reach connected devices to reach 10Bn within Affle 2.0 strategy) with 100mn shoppers in India (shoppers to reach 300mn over next few years). Separating the shopper from the non-shoppers results in a higher conversion rate. The data distillation by Affle is using behavior on App-use and m-commerce on device id, and accordingly has profiled millions of unique device ID into different classifications based on the consumer preferences/consumption. This level of distillation of data gives Affle insight into the probability of conversion.

- **Active Filtering:** The connected devices are profiled by Affle based on the user behavior on various apps (also called Appographic data) which are connected via exchanges or direct API plugins. Deep algorithms to learn these behavioral patterns helps Affle identify the shoppers from non-shoppers. One of the key ability of Affle's tech stack is to actively identify the change in behavior (when connected device is used by a non-shopper for prolonged period). This gives Affle ability to actively filter the shoppers. Example of deeper insight includes understanding the connected devices behavior even on basis on time of the day and correlating that with what kind of apps that were used that can help it better understand precise time or specific app as an ideal spot for better probabilities for conversions.

Exhibit 22: Implied Click to User Conversions on various advertising platforms
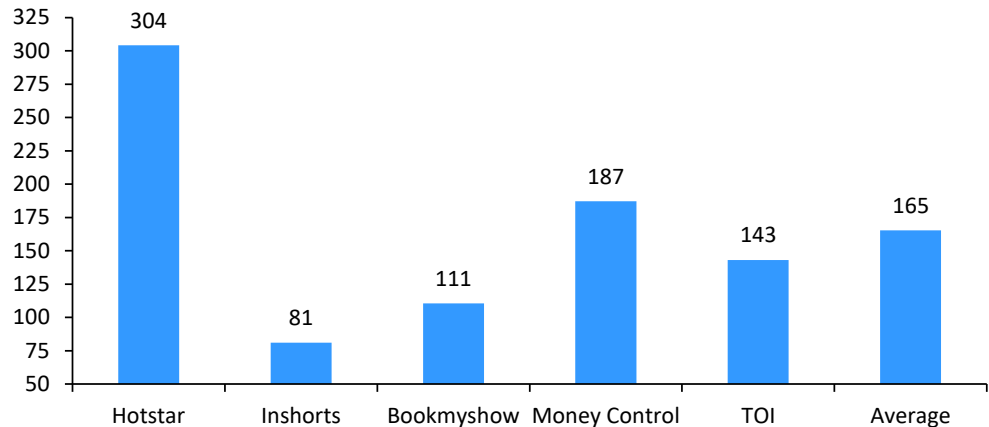
Source: DART, Company, Themediaant, Back Calculated using India CPCU, Converted Users of FY19 and Implied India Cost, Excluding GST

Integrating Technology Stack to improve potency

Ad-tech industry is an acquisition active industry to access market, add capability and stay relevant. Integrating the acquired technology is of paramount importance within acquisitions. Affle has done a series of acquisitions in last 18 months: - Shoffr RevX, Vizury, Mediasmart and Appsnext. These largely bring new product to Affle or access to new market. Affle has been able to integrate Affle tech stack to improve profitability. One such case was launch of Vizury Engage360 (Vizury's re-targeting combined with Affle's CPCU ability), which is an indicator on of whether Affle is able to integrate the technologies. Similarly, Shoffr is soon expected to launch its' O2O platform.

What Data is used?

Algorithm uses data to make decisions and deliver ads to convert users. There are two separate cases here. 1) customer acquisition and 2) Retargeting.

Customer Acquisition Campaigns: Affle uses third party data (vendor) and its' existing DMP data to run customer acquisition campaigns. Ability to attract vendors (apps) due to scale of ad spends largely gives a data advantage to Affle.

Re-targeting: Re-targeting campaigns use first party data and third party data as well. Re-targeting uses first party data from an advertiser which is not utilized for any other advertisers or customer acquisition campaign. First Data usage is restricted only to that advertiser.

Data non-personally identifiable: Data used for algorithm is largely non-personally identifiable data such as interactions within app, information about app used, clicks and actions initiated, purchases, behavioral signals, first party data, etc. Affle also uses camera, location, and accelerometer and global sensors (such as weather conditions, stock markets and air quality) to enable geo targeting of the target.

The accuracy of the prediction and recommendation algorithms improves with every advertisement from new data and learning from previous data. Ad tech business thrives on user data. The more user profiles, better chances of conversion. With geo data, Affle has deep location fencing capabilities (ability to target specific areas) (Red Zone, Green Zone). Quality of data largely determines the accuracy of this algorithm. Many ad-tech players don't have access to such data which gives Affle an advantage.

Ability to partner with prominent ad vendors gives strong moat as unique data is added for the algorithm.

Most of Affle's CPCU business is mobile app focused and exposure to browsers is very limited. The business impact has been higher for browsers based players given recent technological changes and on regulatory side concerns around 'cookie policy changes'.

Growth Strategy of Affle 2.0

Affle2.0 aims to reach >10Bn connected devices including personal wearables, connected TV and smart household appliances. The transformational framework focused on 1) India Market Leadership 2) Verticalization of AI Innovations 3) Vernacular Deep Learning and 4) Omni channel Connected Ecosystem.

Affle2.0 strategy is anchored primarily on 2 Vs - Vernacular and Verticalization. Vernacular focus enables hyper personalized consumer recommendations and targeting next set of users coming from Rural Areas and Verticalization focus enables deeper insights across customer segments leading to greater ROI impact (Acquired companies to bring more ad spots and device reach for Affle).

Exhibit 23: Products and Platforms - Affle Portfolio

Product Portfolio	Description
Consumer Platforms	
mDMP	Data Management Platform
MAAS	Mobile Advertising
RevX	Programmatic Ad platform (retargeting)
Vizury Engage 360	Omni channel marketing
Mediasmart	Programmatic and Proximity marketing
mFaas	Fraud Detection
mKr8	Rich Media & Video
Markt	Multi-Channel Commerce
Enterprise Platforms	
Shoffr	O2O Marketing
mCDP	Audience Intelligence
ARC	App Development

Source: DART, Company

R&D and Technology Awards

Affle's business is high tech business and needs consistent dosage of tech innovation to stay relevant dealing against two evolving threats: 1) Increased competition and 2) Stringent Regulations. The company has registered 3 patents in US for Digital advertising and has 10 patents filed in US/India for Digital Ad fraud detection. It has also filed 1 patent in US for retargeting business and 4 patents in Singapore. Company has employed about 126 resources (40%+ of total strength at 295) in its R&D department. Most of the cost for these resources are expensed through P&L and only about ~US$4mn is capitalized per annum (Spent towards building platforms – Revx/Vizury in FY20).

Awards: Affle has received couple of technology awards. This provides some validation of Affle's CPCU technology. Affle has won several awards from Mobile Marketing Association (MMA), India Digital Awards and Maddies for their technology stack and lead generation abilities.

Exhibit 24: Recent Awards Won by Affle

Awarded Silver for 'Best Lead Generation Through Mobile' for Meesho at IAMAI - India Digital Awards 2020

Won **Gold** for innovative mobile advertising for Meesho at MMA (Mobile Marketing Association) Smarties - APAC Awards 2019 and Global Awards 2019

Won Gold for 'Best Use of Technology' for Bobbi Brown; 'Best Use of Programmatic' for Meesho and one more award for Meesho at ET BrandEquity India DigiPlus Awards 2020

Recognised as the 'Technology Company of the Year' & 'Best in Show' and 6 more awards for top brands at MMA Smarties Awards 2019, Mumbai

RevX ranked 4th in APAC region for re-targeting in Non-gaming category and 1st after Google and Facebook

Appnext was ranked top 10 in India for IAP platform (Ranked by delivered users who are most likely to use in-app purchase)

Source: DART, Company

Client Roster – Affle and Acquired Businesses

Key Clientele

Affle engages with its customer directly as well as through large Advertising agency groups. Affle has ongoing relationship with top6 global agencies (GroupM; Publicis; Omnicom; Dentsu Aegis Network; IPG and Havas - that collectively accounts for 70% of all Global Ad spends) and also regional agencies (Eg: Interactive Avenues, Madison, M&C Saatchi). As many clients come through agency many of these agencies features in Top10-20 client list for Affle. Most relationships with large advertisers starts with agency but as comfort level develops many of them start engaging directly with Adtech players. This trend is also emerging as many companies now have increased focus on digital ad budgets and thus prefer engaging directly. Post IPO, Affle has seen significant brand-visibility and has seen several cases of shift towards direct engagements which helps in improved pricing and reduced client concentration (moreover optically). Currently Top 1/10 contributes 14.7%/45.5% as of FY20.

Exhibit 25: Client Revenue

Particulars (Rs. Mn)	FY19	FY20	YoY
Top Customer	549	492	(10.4)
Top 2-10 Customers	1,060	1,027	(3.1)
Non-Top 10 Customers	885	1,819	105.5
Total	**2,494**	**3,338**	**33.8**

Source: DART, Company

Exhibit 26: Client Roster for Affle and Acquired Businesses

Client type	Names
High Focus (90% of revenues)	
Ecommerce	Amazon, Flipkart, Jabong, Gojek, Elevenia, Sivvi, Zalora, Meesho, Shoedazzle, Marinedepot.com, SmartBuy Glass, Koovs, PetSutra, bewakoof, Zivame, Lucky Vitamin, Spectacle Hut, ABOF, Namshi, Tokopedia, Myntra, ShopClues
Entertainment	BookMyShow, Wynk, AltBalaji, Spotify
EdTech	inshorts
Fintech	PhonePe, Policybazaar, Paytm
Foodtech	McDonalds, Pizzahut, Swiggy, Shipt, Zomato
FMCG	Gudang Garam, Reckitt Benkiser
Gaming	Backflip Studios, Good Game, Tencent, MPL, Game Hive, RummyCircle
Groceries	Amazon, Grofers,
Government	Govt of Singapore
Healthtech	1MG, Johnson & Johnson
Others (low focus now especially post pandemic)	
Banks	BTPN, Citibank, Axis Bank
Travel/Tourism	Air Asia, Tourism Australia, Goibibo, Zoomcar, Almosafer, Booking.com, OYO, makemytrip
Auto	Datsun, Nissan
FMCG /CPG	Reebok, LEGO, Adidas, Swarovski, Lenovo, UrbanClap, FirstCry, ITC, Kingfisher, Yippe
Others	SC Johnson, Airtel, Shopback, PowerBuy, Telefónica, Artefact France, Lamudi, Roposo, Byte Dance, Opera, Badoo, Indiatoday, Sony Pictures, MI, Viacom18, Tinder

Source: DART, Company

Acquisitions - Scaling the Value Chain

To ensure sustained growth momentum, Affle has been adding up more & more capabilities to enhance its addressable opportunity and ride throughout entire business value-chain (DMP, DSP, Fraud Detection, Proximity based Online to Offline, Omnichannel, On-device App discovery, vernacular, Appstore, Interactive Keyboard etc). After mastering client-acquisition capabilities powered by its DMP-mFaaS duo, it has acquired companies such as RevX/Vizury to scale-up in the re-targeting market (second stage of maturity in mCommerce) in CY19.

In current year, it has announced four transactions that adds up to its capability in location-proximity-based marketing that can drive online-to-offline conversions with Mediasmart and then announced acquisition of Appsmart that gives its unmatched advantage of being exclusively present on handsets of several leading Android-based-OEMs to monetize the ad-space on 20-different places on passive screens. These acquisitions forms foundation to its Affle 2.0 journey (10-year vision). More recently, it has announced two strategic investments that is focused on vernacular-user-base (as next set of unique users entering in mainstream are preferring vernacular inputs/outputs): - i) Firstly, invested about US$2.8mn to acquire 8% stake in IndusOS an App-store on select android based OEMs and ii) Secondly, invested about US$2.7mn to acquire 8% stake in Bobble AI, a unique vernacular-themed keyboard that is already onboard on select OEMs.

Exhibit 27: Acquisition & Minority Stake Summary

Name	Stake	Date	Amount Paid ($ mn)	Earn out Due / Pending Payment	Revenue	Multiple	Reason for Acquisition
Markt	100%	Mar-18	NA	NA	NA	NA	Offline to online commerce platform which would enhance platform propositions for e-com companies.
Vizury	100%	22-Aug-18	Total $4.2mn. It was paid in two installments on Sept,2018 ($2.5mn) & May' 19 ($1.7mn).	NA	Revenue for 5 months till August,2019 stood at $3.32mn (Rs. 235.82 at USD/INR:70.96)	Revenue Multiple is 1.89 (annualized data for 5 month revenue from Jan-August,2018)	Adding Re-Targeting Capabilities and expands reach in Middle East and Africa
RevX	100%	28-Jun-19	The cost of acquisition was $4.5mn.	NA	NA	NA	Revx added retargeting services
Shoffr	100%	29-May-19	Shoffr paid $0.45mn upfront and $0.10 payable by Feb-22.	An amount of $0.1mn (INR 7.5mn) was payable by Feb-22. This was waived off by the shareholders through a mutual settlement.	NA	NA	Shoffr added O2O capabilities for Affle
Mediasmart	95%	28-Feb-20	Total EUR5.12mn with EUR 4.5mn paid up front. (total cost is $6.09mn at EUR/USD of 1.19). The remaining 5% will be transferred bfr March'21.	The amount to be paid over 4 years to Employees is EUR 0.62mn. ($0.73mn at EUR/USD at 1.19)	The revenue for CY19 stood at EUR 5.95mn ($7.05mn at EUR/USD at 1.19). CAGR of CY17-19 was negative 26%)	Revenue Multiple is 1.16	Build greater strategic presence in Europe, LATAM and US and Use its proximity marketing programmatic platform
Appnext	67%	8-Jun-20	$17.25mn will be paid to buy 66.67% ownership and 100% voting; with an option to buy remaining ownership in 3 and 5 years.	The amount to be paid is ~10mn after 3 years or 5 years for purchase of remaining tech assets.	The revenue for CY19 stood at $10.3mn.	Revenue Multiple is 2.6	Acquisition to gives exclusive access to few of the largest mobile OEM's devices for app recommendations
Indus OS	8%	2-Jul-20	Bought 8% stake in Indus OS for $2.86mn	NA	Indus OS reported revenue of about Rs.180mn in FY20. ($2.53mn at USD/INR at 71)	Revenue Multiple is 0.07	Indus OS strengthens Affle's Verticalization and vernacular targeting strategy.
Bobble AI	8%	13-Aug-20	Bought 8% stake in Bobble AI for Rs.198mn. (~$2.78mn at USD/INR of 71)	NA	Revenue for FY20 is Rs. 10.8mn ($0.15mn at USD/INR at 71)	Revenue Multiple is 0.05	Complements Affle's vernacular strategy and significantly strengthens partnership with OEMs

Source: DART, Company

Vizury (CRM)

Vizury is a retargeting business relevant for businesses such as E-commerce, travel, gaming and food apps. Affle acquired Vizury on 1st Sept, 2018 for $4.2mn. Affle has worked on combining Vizury's data, improved profitability of this business (by cutting low margin business) and launch of SaaS re-targeting platform. Company has revamped its offering and launched a powerful SaaS based platform, Vizury Engage 360, for re-targeting in Q3FY20. The Engage 360 Platform offers multi-channel retargeting that leverages power of programmatic ads, App Push Notifications, Social Media Ads, Email/SMS campaign and also in App/web-push.

Key Takeaways:

- **Reduced Business:** Affle reduced the low margin business (improved quality of business) for Vizury after acquisition as monthly revenue run-rate declined from INR 47mn (5 months before acquisition) to INR 36mn (post acquisition 7 month).

- **Acquisition Cost:** Annualized revenue (on pre-acquisition) was INR 603mn implying a Revenue multiple of 2.1x (Paid about INR290Mn).

- **Launched Vizury Engage 360:** Affle launched Vizury Engage360, an Omni Channel Marketing platform, for re-targeting needs. Engage360 is driven by CPCU business model for conversion on the client website and off the website.

- **How Vizury Re-targeting works:** Affle collects user behavioral data from the advertisers through embedded website code, mobile SDKs and third-party mobile measurement partners and combines the data from third-party ad exchanges and predict the propensity of the user to engage in the advertisement.

- **No Cannibalization:** Engage360 complements its CPCU business and adds another source of generating revenue as a SaaS Model and user conversions.

- **CPCU Conversion Upside:** Apart from the SaaS Revenue Component, Engage360 has CPCU conversion upside where Affle earns on own media (advertiser's website conversion) and paid media.

- **International Markets**: Affle expects strong deals win for Engage360 in developed geographies from a remote execution perspective and later plans to doubling up with on-ground presence to expand the capabilities in those markets.

- **Top 10 Re-targeting Player:** Vizury is rank 8th in APAC region in Appsflyer ranking for H2CY19 and 6th ranked in Gaming Category.

Exhibit 28: Engage360

## Market Potential for Re-targeting

Retargeting is a type of digital marketing activity that focuses on getting lapsed/interested users to transact online by targeting them with personalized product ads after they have shown interest in those products by either browsing about them or adding them to the shopping cart. In this kind of business, the data for the consumer is provided by the App/ecommerce company to AdTech companies to leverage on huge consumer data on behavior/transactions to generate better conversions/repeat business. Such data is owned by the Client (Advertiser, App, OTT) and thus cannot be use for any other usage outside the client platform (Ex: Amazon may give large bunch of data of its users such as data about what product they looked, liked, added-to-cart and so on to a Adtech players like Affle to chase these unique users on platforms outside Amazon).

Exhibit 29: Global Re-targeting adoption rate (%) is increasing as apps recognize the importance of re-targeting customers

Exhibit 30: APAC Re-Targeting Adoption (%)
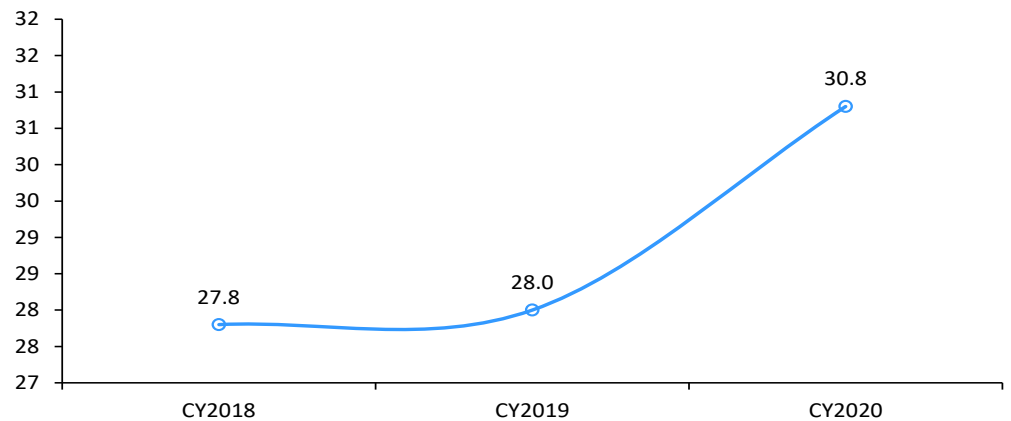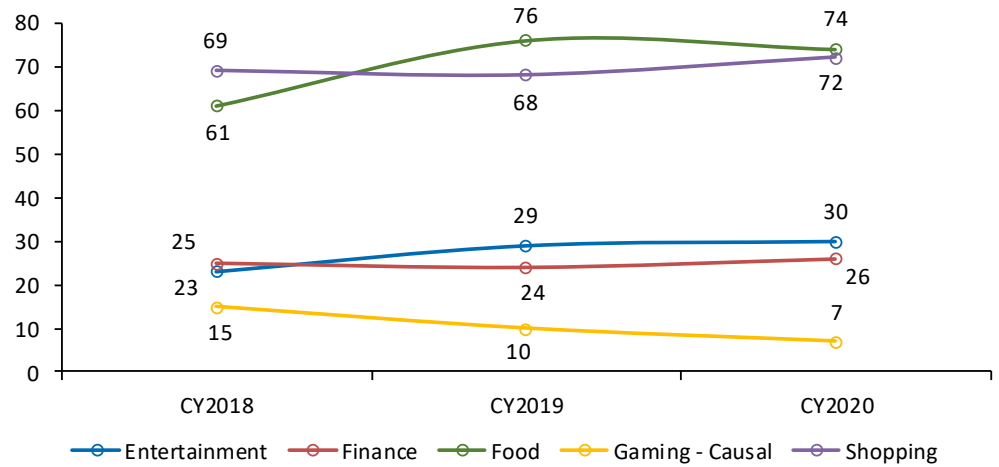
Source: DART, Company, Appsflyer

Exhibit 31: Vizury: Case Studies and business cases

Company	Comment
Goibibo	Vizury's re-targeting Increases User Engagement By 38%
ShopBack	Vizury's Personalized Ads, Along With Intelligent Retargeting helps Shopback Lift In-App Conversions By 3x
Zoomcar	Vizury's Dynamic Personalized Ads Along With AI-Based Bidding helps Zoomcar Boost Car Bookings By 2.5x
Koovs	Koovs Leveraged Vizury's Rich-Media Based Single & Multi Product Push Notification and increased Sales By 11%
LuckyVitamin	Leveraged Vizury's Dynamic Feed Based Push Notifications To Activate Customer and LuckyVitamin Grew ROI By 4x
Zalora	Leveraged Vizury's Push Notifications To Drive Users Back To Their App During Season Sale and grew conversion rate by 2.5x
Zivame	Vizury's Dynamic Ads On Facebook & Video Ads Helped Zivame To Target High Intent users and drive down Cost per transaction by 3x
Bewakoof	Vizury Concentrated On Facebook Along With Display Advertising To Bring Back Drop-off User and brought back CPA by 3x
PetSutra	PetSutra Grew Conversions By 7x
Medigap	Vizury Engage360 increased Medigap Omni channel engagements by 5% through dynamic web and grew conversions by 2.3x

Source: DART, Company

Exhibit 32: Engage 360 Platform
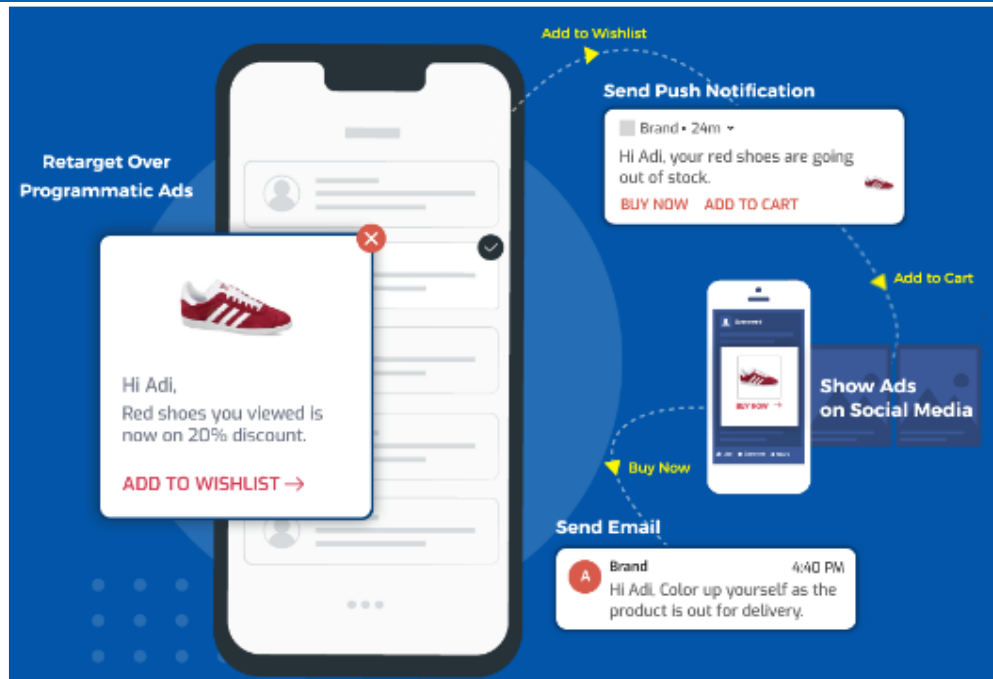
Source: DART, Company

Markt

Afffle acquired Market in March 2018 as an offline to online commerce platform for enhancing the e-commerce proposition. Markt had an omni-channel, commerce platform consisting of multiple custom-built modules that offer web service APIs for easy and fast integration. Markt's key modules included a catalogue management system, inventory management, order management, payments handler, and delivery management

RevX

RevX is a mobile only self-serve programmatic platform that delivers consumer acquisitions, engagements and transactions through relevant mobile advertising. Affle acquired RevX (International Business only) on 28st June, 2019 for $4.5mn and Consolidated from 1st April, 2019. Affle acquired contracts with nine customers of RevX Inc. as part of acquisition of the RevX Platform Business, which included contracts with e-commerce companies, primarily in Southeast Asia and the Middle East, and a well-known marketing platform for mobile brands.

Key Takeaways:

- **Re-Targeting & new User Acquisition:** Revx does app retargeting & re-engagement using dynamic ads where mobile users are brought back to the portal/App from where they have dropped off an advertiser's App without making a desired action.

- **Self-Serve Model:** With Revx, Affle believe the self-serve features will drive the adoption of programmatic advertising amongst fast-growing industry segments and RevX Platform would add newer functionalities and machine learning-driven algorithms to its CPCU Platform.

Exhibit 33: Case Studies and Use cases for Revx Platform

Company	Comment
FirstCry	Revx built dynamic Multi-product Ads on Facebook help Online Baby Retailer Increase Sales (6% more click thru conversions)
ShopClues	Boosts Conversion by 2x with RevX Dynamic Retargeting Solution
Zalora	Increases App Conversion Rate of the First Time Buyers by 65%
Myntra	Myntra Achieves 55% Higher Conversions with RevX highly personalized Retargeted Ads
Tokopedia	RevX Delivers 4x Higher RoAS than other App Retargeting Partners for Tokopedia, Indonesia's Biggest Online Marketplace
Namshi	Delivers Lowest CPA of about 15% amongst other App Retargeting Partners
UrbanClap	RevX Drives 8x Increase in Bookings at 10% Lower than Target CPA for UrbanClap, India's Leading Local Services Marketplace
Lamudi	RevX Enhances Mobile Engagement by Driving 9x Higher Seller Contact Ratio for Lamudi, a Global Real Estate Classified Marketplace
Jabong	RevX Beats Jabong's Benchmark ROI by 18%, Becomes Preferred App Retargeting Partner
ABOF	RevX Partners with ABOF and Drives 60% Increase in Conversions, Becomes Preferred App Retargeting Partner
Backflip Studios	RevX Helps Backflip Studios Reactivate Lapsed Purchasers, Delivers 11X RoAS for their Gaming Title DragonVale
Almosafer	RevX Drives 5x Increase in Bookings for Almosafer, Middle East's Leading Online Travel Company
Sale Stock	RevX Becomes Leading App Retargeting Platform for Sale Stock; Delivers 25% Lower CPT than Other Partners
Grofers	Grofers, India's Leading Hyperlocal Delivery App, sees 8X Increase in New User Conversions Driven by RevX
Zivame	Delivers 75% Higher ROI amongst Other App Retargeting Partners
Swiggy	Swiggy Acquires High-Quality App Users at 26% Lower Acquisition Cost with RevX's AI-Powered Solution
Shipt	SBoosts Paid Memberships by 1.5x and Decreases Acquisition Costs

Source: Company, DART

Shoffr

Shoffr is an online to offline platform that converts online consumer engagement into in-store walk-ins and transactions. In this model, customer is engaged online wherein it identifies the product and then book it which the nearby store blocks for the customer. Affle acquired Shoffr on 29th May, 2019 for $0.55mn ($0.45mn upfront and balance $0.1mn was due in Feb'22. However, as per Annual Report of FY20, the balance due (deferred consideration of Rs. 7.5mn) has been waived off via settlement and not to be paid. Business has been consolidated from 1st April, 2019. Shoffr Platform as of August, 2019 had just very limited direct customer such as (toy manufacturer and a jewelry company) that are being billed via Affle India.

Key Takeaways:

- **How It works:** Shoffr exposes the inventory to customers to drive O2O conversions and it has integrated itself with the inventory system of client.

- **Product Investment:** Shoffr, which is more a product investment for Affle. It will largely move as SaaS product for Omni channel O2O marketing.

- **Customer base:** Shoffr customer base has increased from 3 clients to 6 clients (Reebok, LEGO, Adidas, Swarovski, Lenovo and Spectacle Hut). India based clients will largely start from Q2FY21 with landmark group.

- **Profitability:** As of 1QFY21, Shoffr is not profitable.

Mediasmart

Mediasmart is self-serve (SAAS based) mobile programmatic platform (DSP) with unique incremental impact measurability for Proximity and App marketing campaigns (ROI measure for App-based advertisers). Affle acquired Mediasmart on 28st Feb, 2020 for Euro 5.12mn and consolidated it from Q4FY20. Mediasmart had total revenue of Euro 5.95mn (implying Revenue multiple of 1.16x). The acquisition of Mediasmart gives Affle access to broader Europe & Latin American market and incremental DSP product that would cater diverse need for omni-channel opportunities. This acquisition would create large opportunity through targeted marketing using Geo-fencing approach. And thus, the approach of Mediasmart is a notch higher than probabilistic and can be more categorized as deterministic. In Oct'20 it has launched Audience Targeting and Household Sync Technology on Connected TV (CTV). This will make the targeting more precise as it is also connected to individual device and will target spends specifically on Video-ads that are likely to reach 15% of all programmatic ad spends. It has also integrated its DMP with Mediasmart offering to launch exclusive mDMP platform exclusive for its clients.

Key Takeaways:

- **How It works:** Mediasmart is a DSP platform which allows advertisers to measure incremental impact (Incremental ROI). It is a SaaS based model with 95% of revenue outside of home country Spain and largely into developed countries like US, France, UK and Germany. Mediasmart also had Proximity Marketing which included incremental measurement of impact of online ads on how it drives offline walk-ins.

- **Revenue Performance:** Mediasmart has a quarterly run-rate of ~Rs.110mn as of Q4FY20. Mediasmart achieved revenues of Euro 2.29mn/2.08mn/3.04mn in year FY19/FY18/FY17 respectively (Note these revenues are excluding advertisement procurement costs). Including the Advertisement procurement cost the revenues for the last three years Euro 5.95/6.68/11.02mn.

Appnext

Appnext is on device app-discovery company which shows advertisements on devices without stepping into an Apps. Affle has announced acquisition of Appnext Pte. Ltd (Singapore based app discovery platform) on cash basis valuing it at $27mn EV (Implying 2.6x on trailing revenues, $10.3mn in CY19 with booming revenue CAGR of 91.1% over CY17-19; EBIDTA margins single digit negative). The transaction was structured as 66.6% immediate purchase of shares and option to buy 28.3% and 5% in next 3-5 years on based on completion of growth targets (however the IP of the business would be transferred to Affle immediately). Out of the US$17.25mn payout to the company, about 12mn$ will be utilized to clear all the debts on the books and rest goes to selling shareholders. Acquisition of Appnext is key for Affle as it gives exclusive access to few of the largest mobile OEM's devices for app recommendations (OEMs includes: Samsung, Xiaomi and Oppo: - These OEM collectively accounts for over two-third of Indian mobile shipments). Currently, Appnext has about 300mn daily active users (DAUs) and out of these more than 100mn are in India.

Key Takeaways:
- **Exclusive access to Devices' touchpoints:** Appnext has won large deal with largest OEM manufacturer (renewed for five years in March'20) for App Recommendations and advertisements. With the deal, Affle has access to 20 touchpoints exclusively (although not exclusive by contract) across all its smartphones. These touchpoints are largely on the OEM lock screen, minus one screen, App folders etc. This brings Affle to a new level of holistic advertisement on the OEM device than only in-app ads earlier.

- **Adds incremental addressable opportunity:** The ad budgets for this segment are completely incremental and thus the entire opportunity is complementary for Affle with zero conflicts as of now.

- **Strengthens the CPCU model:** Appnext would help in better conversions as now Affle can target user without getting into app. Also better access to user behavior/interests on what kind of app a user is interested in would help it refine the Appographic profile for that unique device ID.

- **Metrics on Appnext:** Appnext has 300Mn daily active users (100mn in India), 20+ on-device daily interactions through OEM partnerships and 60,000+ apps, delivers over 4Bn app recommendations per day. This data from Appnext will bring in more efficacy to Affle to improve further it's data filtration effort.

- **Lower CPCU Rate:** Appnext has a 15%/ 20% lower CPCU rate than Affle's CPCU rate (implying Rs32-35; can reach to Rs40 gradually). Affle is strategizing to improving Appnext CPCU rate to Affle's company level CPCU rate.

- **OEM's benefit:** OEM's largely achieve a recurring revenue stream and a brand-safe advertising policy for their customers. The focus here for OEM is to provide good service quality to consumers so that they get best experience and in turn come back to them for repeat purchase. OEMs believes in monetization of inventory on device but not at the cost of impacting user experience. Currently Appnext serves Samsung, Xiaomi and Oppo, this gives it a dominant market share and becoming the single largest partner with them in India and South East Asia.

- **Advertisers' benefit:** Most of the app recommendation / ads will be organic based / interest based similar to search ads. This also gives the advertisers an option to have app recommendations both for acquisition and re-targeting.

- **Business Model:** Appnext follows a CPCU model with 7mn conversions in Q4FY20 with 15% /20% lower CPCU rate. 55% of Revenue is coming from Indian market. The inventory cost for Appnext is 65% which is paid only when any conversion is completed. So in a way on success basis.

- **Expanding beyond CPCU:** Affle use Appnext to scale up O2O conversions and re-targeting needs using the touch-points available from Appnext.

- **Outlook:** Affle expects Appnext to grow at similar pace to Affle's organic growth of 25%. Appnext will break even in 2QFY21 and contribute 8%-10% to PAT on standalone basis.
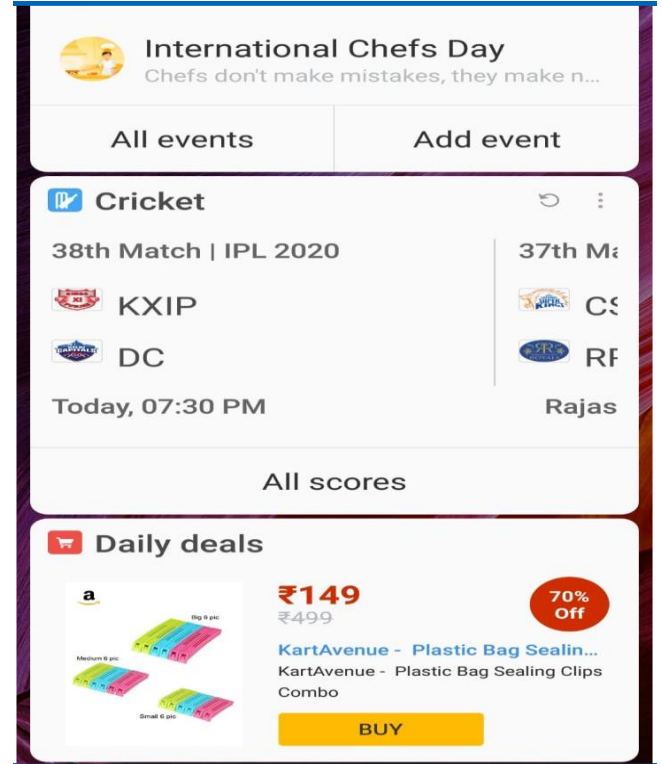
Screenshots of Appnext Advertisements
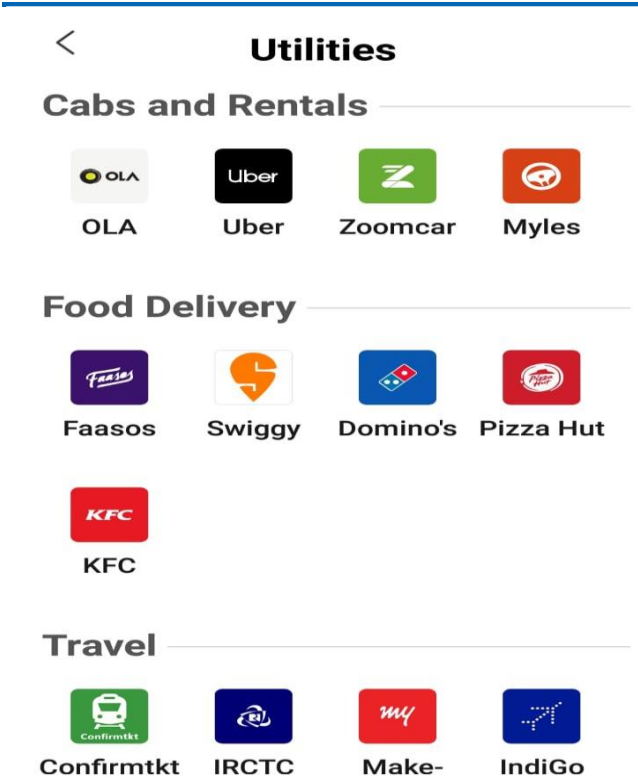
Exhibit 34: In-Folder Recommendations of Apps
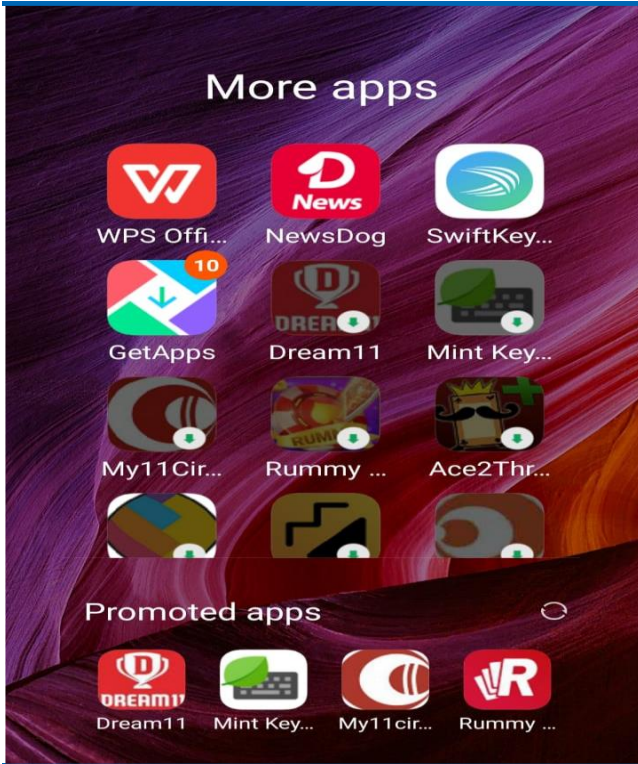
Source: DART, Company, Mid-Tier Xiaomi Phone

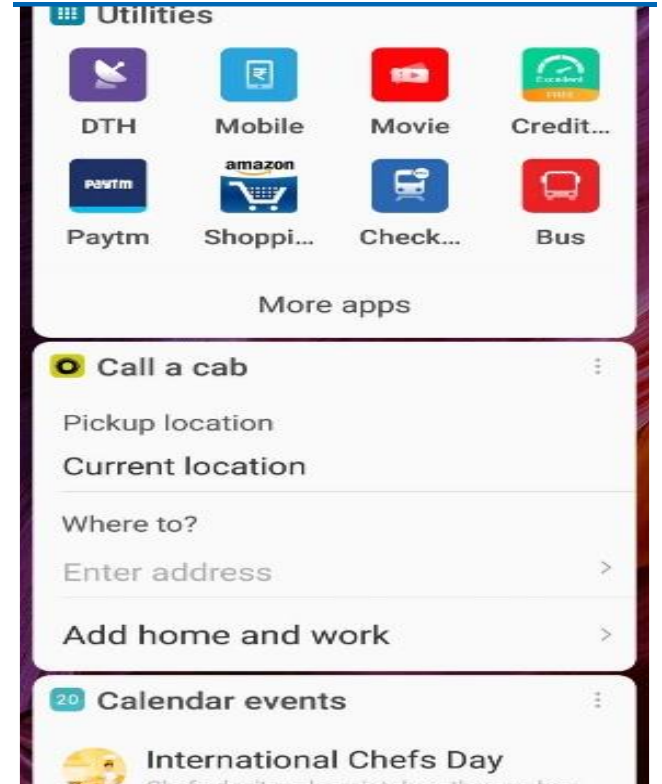**Exhibit 35: Home Screen and Notification Area**

Source: DART, Company, Mid-Tier Xiaomi Phone

Exhibit 36: Variety of Apps Recommended

Source: DART, Company, Mid-Tier Xiaomi Phone

Exhibit 37: Recommended Apps on Minus 1 Screen
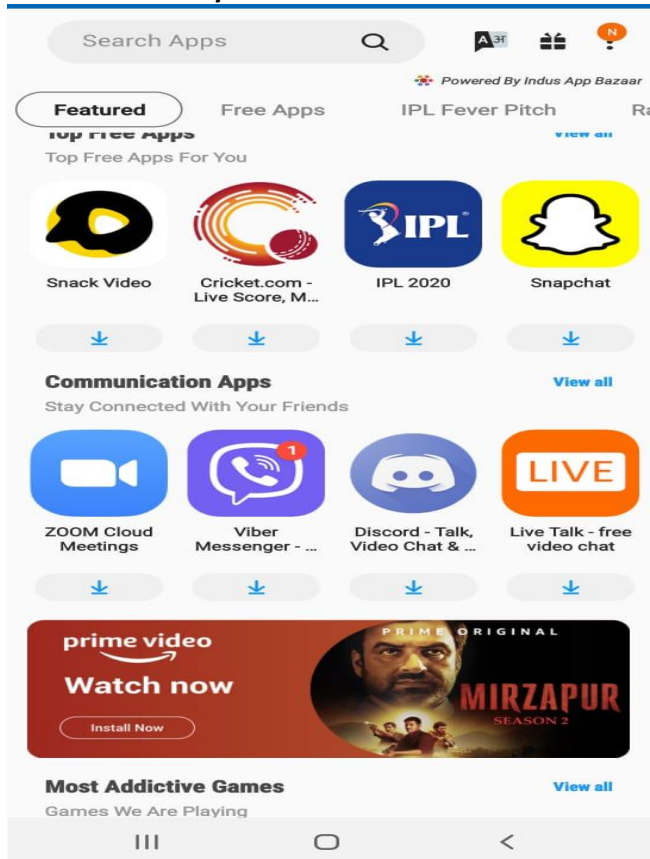

Source: DART, Company, Mid-Tier Xiaomi Phone

Indus OS (8% stake)

Affle made a strategic investment in Indus OS. Indus OS is the appstore provider for one of the largest mobile phone manufacturer (Samsung as well as few other Indian OEMS – default app store). Affle bought 8% stake in Indus OS for $2.86mn. Indus appstore has about 400,000 apps available in English as well as 12 Indian languages. Stake in Indus OS strengthens Affle's Verticalization and vernacular targeting strategy. Utilizing its proprietary AI-driven app recommendation engine, Indus OS optimizes the user experience, delivering higher engagements and bringing app developers, smartphone brands and users on a single India centric platform.

Indus OS reported revenues of about Rs180mn in FY20 (FY19/FY18 at Rs45mn/Rs50mn) and derives most of its revenues from App-downloads. Given its unique capabilities on several regional languages it has emerged as partner of choice for all app developers that intent to target users that prefers regional languages. This acquisition would boost vernacular capabilities offerings for Affle and thus would help it win customers in this segment. Also, its deep conversion capabilities would help in improved app-downloads for Indus OS. The OEM that are part of the Indus OS network includes likes of Samsung, Micromax, Karbonn, Intex, Celkon, Elite, Aamra and Swipe.
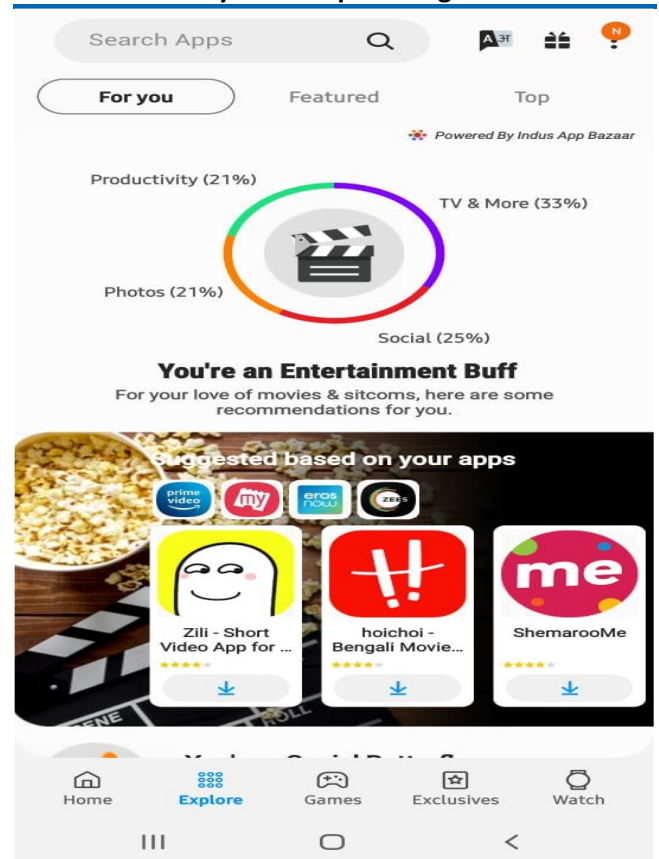
Screenshots of Indus App Store Advertisements
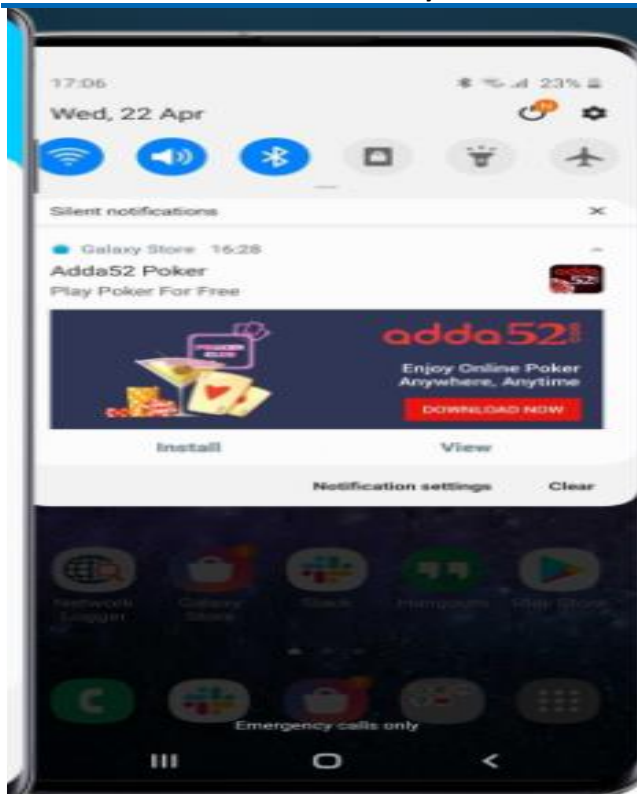
Exhibit 38: Galaxy Store Main Screen View

Source: DART, Company, Mid-Tier Samsung Phone
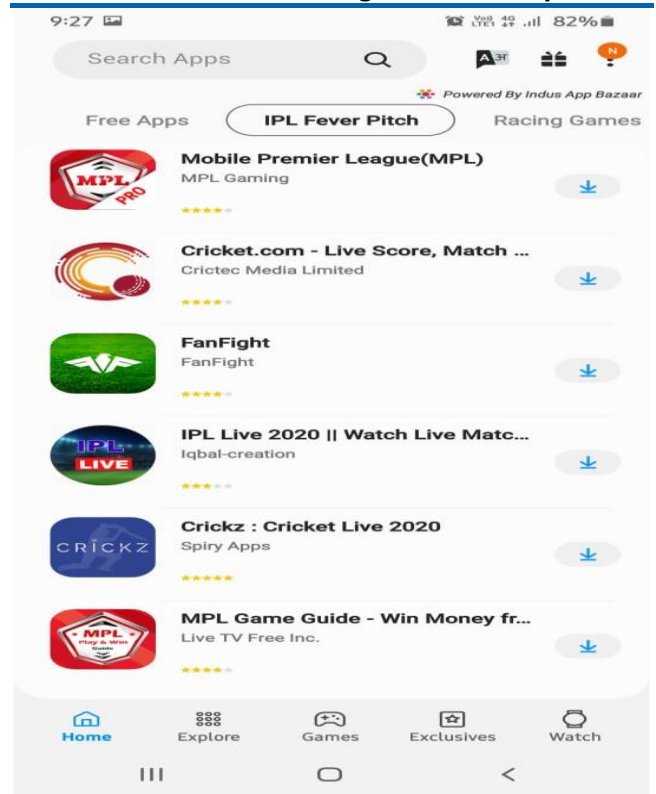
Exhibit 39: Galaxy Store Explore Page View

Source: DART, Company, Mid-Tier Samsung Phone
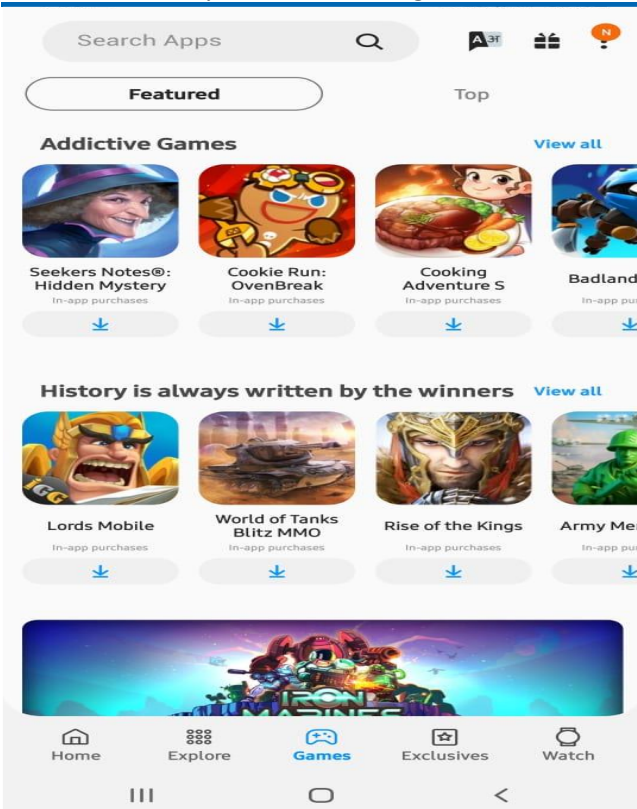
Exhibit 40: Notification from Galaxy Store

Source: DART, Company, indusos.com

Exhibit 41: IPL Fever Pitch Segment in Galaxy Store
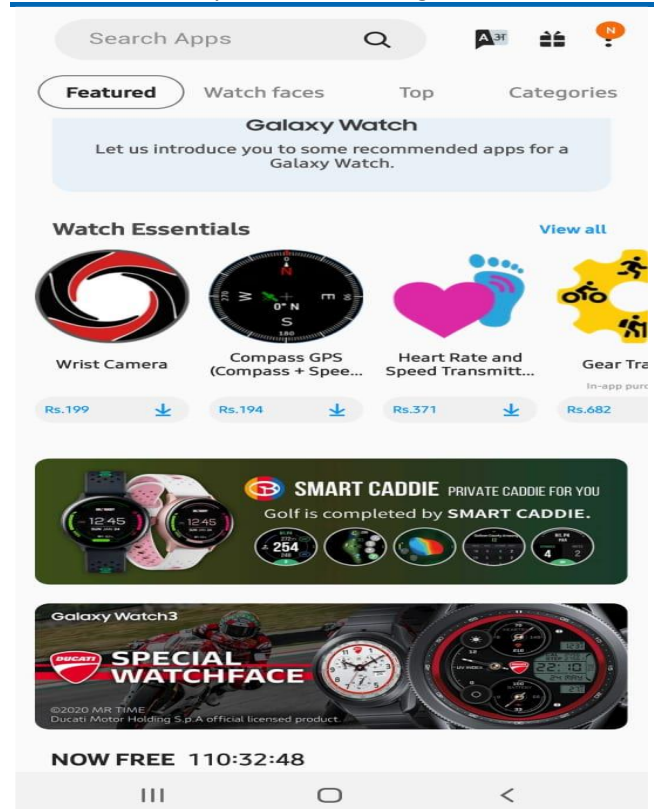

Source: DART, Company, Mid-Tier Samsung Phone

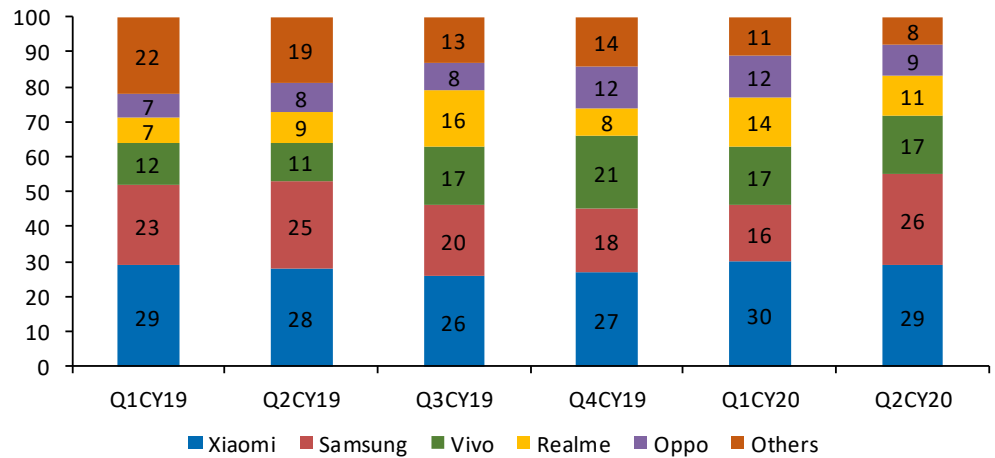**Exhibit 42:** Galaxy Store Games Page View

Source: DART, Company, Mid-Tier Samsung Phone

Exhibit 43: Galaxy Store Watch Page View

Source: DART, Company, Mid-Tier Samsung Phone

Exhibit 44: India: Smartphone Shipments market share (%)

*Source: DART, counterpointresearch.com*

Bobble AI (8% stake)

On 13th Aug 2020, Affle announced signing of agreement to acquire 8% stake in Talent Unlimited Online Service Pvt Ltd Aka Bobble AI, a Conversation Media Platform which offers indigenous social keyboard on smartphones *(Affle has secured exclusive global ad monetization rights of tech products of Bobble AI for 5 years)*, for Rs198mn in cash and with incremental options to acquire more stake after certain performance targets within 3 years. This values Bobble AI at ~Rs. 2.4Bn. Bobble AI's revenue for FY20 is Rs. 10.8mn (FY19/FY18 was Rs25.3mn/Rs11.5 respectively).

Bobble – Commercial model and business potential

Bobble AI has a unique interactive Keyboard which is accessible in 23 Indian Language and 100 international languages. The company has achieved 30mn+ user base and has library of 100k+ stickers and Gifs. The company has achieved milestone of 5bn+ impressions/day and is serving top-brands such as Addidas, Reebok, Sony Pictures, MI, ITC, Viacom, Tinder, Abt associates, Kingfisher etc. It has AI capability providing contextual recommendation for branded stickers and emojis. Bobble AI has partnered with Xiaomi and pre-embedded itself as a default keyboard across multiple Xiaomi devices in India (all handset that were launched post-Aug'20). It is also partnering with other OEM (through Appstore), Mobile Network Operators and Financial services companies for acting as distribution partners. Its inventory is bit premium (effective basis eCPM) given its social-access which makes it the most precisely contextual. Existing large Investors in Bobble AI are Xiaomi (post deal stake at 27.6%) and SAIF Partners (19.42%).
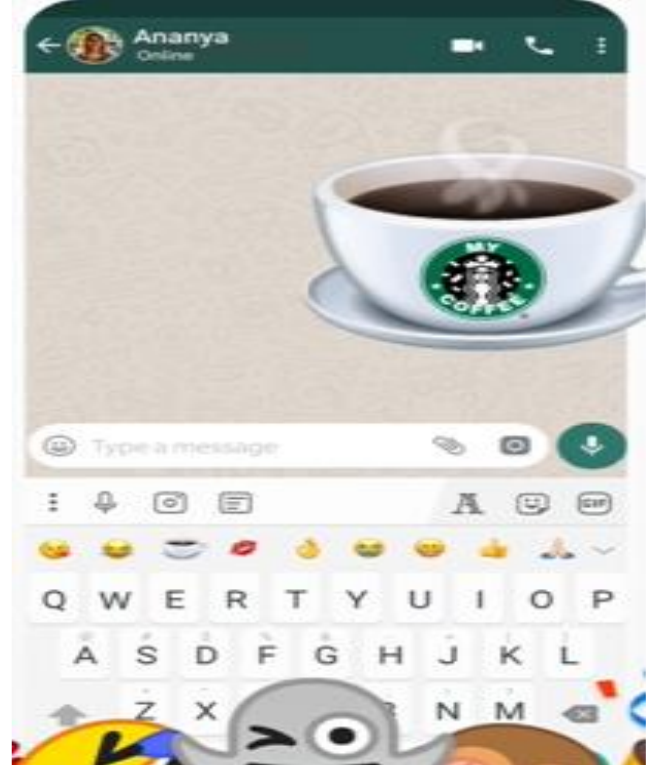
Bobble AI Keyboard

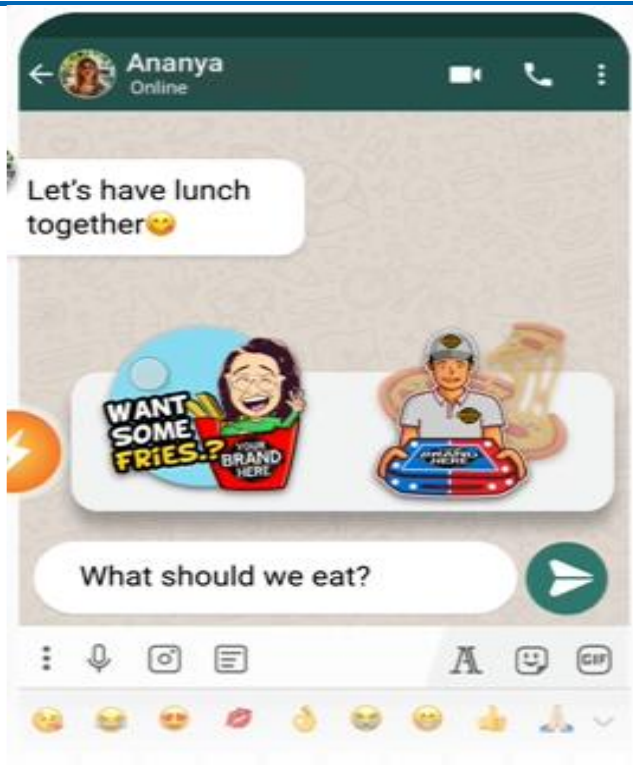**Exhibit 45: Bobble AI Keyboard can deliver brand stories via GIF**
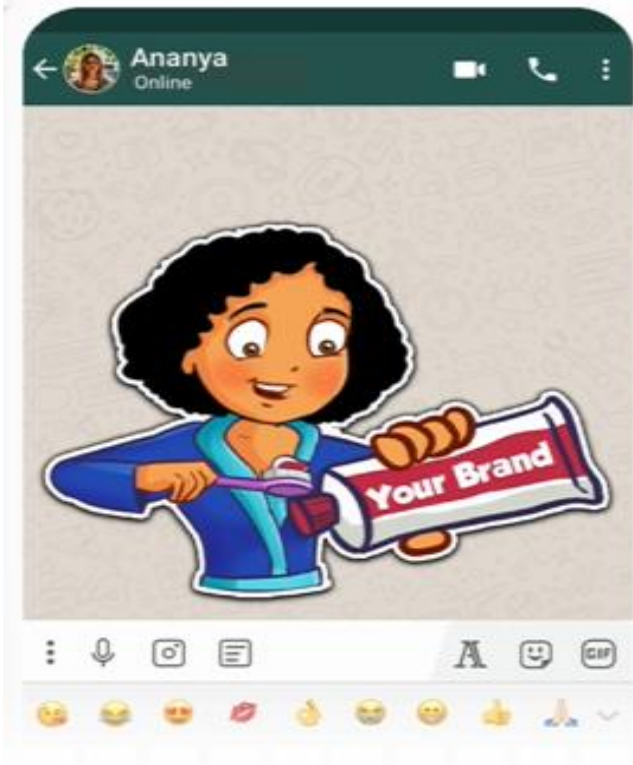
Source: DART, Company, bobble.ai website

Exhibit 46: Bobble AI Keyboard can have customizable brand integrations

Source: DART, Company, bobble.ai website

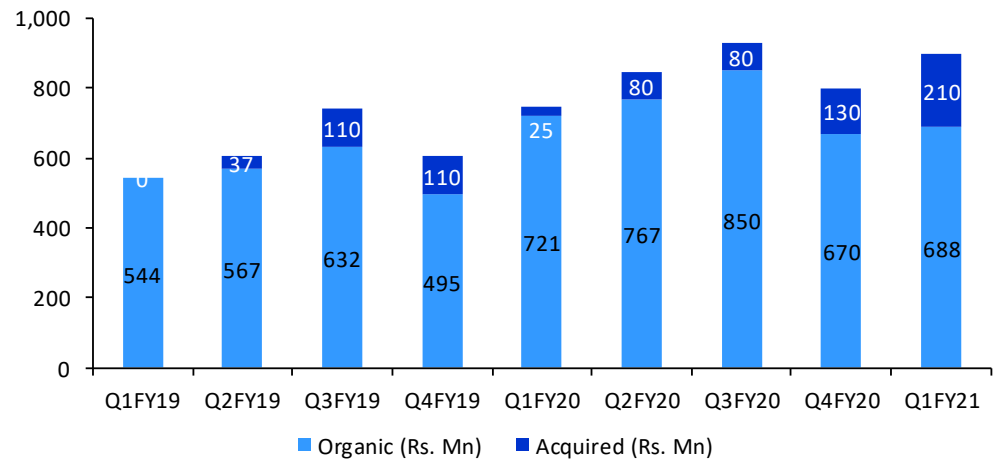**Exhibit 47: Bobble AI Keyboard can recommend context based GIFs**

Source: DART, Company, bobble.ai website

Exhibit 48: Bobble AI Keyboard is Multi-lingual

Source: DART, Company, bobble.ai website

Exhibit 49: Organic & Inorganic Revenues - Quarterly Trends (Rs mn)

Source: DART, Company, Shoffr excluded from Revenue, some part of Vizury may be included in RevX.

Exhibit 50: Earn-outs Due / Minority Interest

Acquired Business	Earn-outs Due / Minority Interest
Shoffr	An amount of $0.1mn (INR 7.5mn) was payable by Feb-22. However, this was been waived off through a mutual settlement with Affle International.
Mediasmart	The amount to be paid over 4 years to Employees is EUR 0.62mn. ($0.73mn at EUR/USD at 1.19). Minority Interest is 5%. This remaining 5% ownership will be transferred before march'21.
Appnext	The amount to be paid is ~$10mn after 3 years or 5 years for purchase of remaining tech assets. Minority Interest is 33%. An option to buy remaining (33%) ownership in 3 and 5 years will be available.

Source: DART, Company

Low threat from Walled-gardens

The acquisition of Appnext and strategic partnership with Indus-OS has provided Affle with access to large number of users that are unique based on handset make (includes 3 of top 5 OEMS) which help it offer complete Platform-based offering (End to End Solutions), making it more competitive and differentiated approach just like giants have several (Facebook and Google collectively accounts for 60%+ of Global market share). These events would add huge long term value as now it has a platform in form of Device, Interactive Keyboard and Appstore that can provide its unmatched data access of consumer behavior in terms of what kind of Apps they use, their taste and so on. Going forward, the huge concentration (almost a duopoly) is expected to reduce in the market as there are good numbers of players that do not wish to work with these walled-gardens as they can disrupt any business with their monopolistic and multi-dimensional mindset. Affle on the contrary is large enough to be termed 'trustworthy' and small enough to be non-threatening to its clients. Affle has also behaved far more responsibly (both in terms of reach/spends) and timely evolved its capabilities (rationally adopting to changed environment).

Why AdTech players have scaling issues despite huge potential?

The Ad-tech market is filled with large number of DSP, DMP and other Ad-tech players. Many of these Ad-tech players are largely similar in nature and have faced scaling up issues (especially profitable growth) despite the significant underlying opportunity. Here are some of the factors that have led to failure for many of them:

- **Scaling-up too fast:** With PE Funding pour over Ad-tech players since 2015, many new ad-tech startups have attempted to scale very fast in terms of getting into new markets, new products, etc, resulting in sustained investment and lower economies of scale.

- **Poor cash collections:** Many Adtech companies take up huge work flow from their clients (many times start-ups) and scale up their Advertising significantly without focusing on collections and the same time have similar outstanding with publishers. Many a times these result in DSO of over 180 days and ends up as bad debt because these start-ups face cash-crunch or not able to raise next round of funding. So it is much easier to get revenues in this business bit very difficult to convert that into cash.

- **Slow to adapt:** Ad-Tech industry has seen innovation over the last decade. Starting with RTB buying, use of Ad-Fraud, Entry of Video Ads, Use of First Party Data, Entry of Connected TVs, etc. The companies which have been slow to adapt to Changes have already fallen behind.

- **Wrong acquisitions:** The ad-tech industry is replete with acquisitions to add capabilities and access new markets. The industry has fair share of failed acquisitions due to poor integration of Tech stack, which eventually emerge as a hurdle for growth/profitability.

- **Lack of differentiation:** The market is quite homogeneous. DSPs, DMPs, ad servers, and other advertising software share similar features and similar approaches to client treatment. Most players fail to make a difference and their website will have same AI, ML, big data and premium inventory key words. Only a handful of companies have differentiated tech and market positioning.

- **Big are getting bigger:** One of the biggest common theme behind successful player in Ad-Tech space is the ability of companies to create capabilities, which can be executed well if you have strong source of in-house data either through own data platform or aggregation systems (either on publisher/advertiser side). Thus, players with historical prowess, first mover advantage or aggregation capabilities is working well, and in turn is a disadvantage from scaling up perspective for new players.

Exhibit 51: Case Studies: players finding difficult to scale

Company	Factor for Failure	Remark
OpenX	Slow to Adopt	A programmatic advertising platform which shifted the focus to upgrading to video and programmatic solutions. Was slow to understand the trend change as a result has shut down its Ad server business.
Sizmek	Wrong Acquisition	Cash-bleeding business, wrong acquisition and increased competition from Walled garden led to its bankruptcy (sold its Ad server to Amazon).
Videology	Lack of differentiation	an advertising technology which started at fore-front video technology was impacted by Google's decision to disallow outside companies from purchasing ads on YouTube, requiring advertisers to purchase through Google's ad purchase tools and Google's foray in TV advertising. Videology filed for Chapter 11 bankruptcy in May 2018 and was acquired by SingTel.
Invite Media	Big are getting bigger	Google bought Invite Media for $81mn in 2010 to access DSP capabilities.
Merkle	Big are getting bigger	Dentsu Aegis bought Merkle for $1.5 billion in 2016 to capitalize the trend of first-party data in digital marketing.
Acxiom	Big are getting bigger	IPG bought Acxiom Marketing Services in 2018.
Epsilon	Big are getting bigger	In 2019 Publicis bought Epsilon for $4.4 billion.

Source: DART, Company

# Affle's remedial multi-pronged differentiation strategy

To address these scalability challenges and flourish amidst rising supremacy of the walled-gardens, Affle has devised multi-pronged remedial strategy that includes building deep knowledge in select markets (early-mover), strong relationship across players, Client pool across verticals (EFGH), strong and wide (& growing) solution offering that is creating data-exclusivity.

Differentiation 1: Early-mover advantage (in India/Indonesia)

Affle has achieved top-5 position in the Ad-tech market in its key focus markets such as India and Indonesia by entering the market early and scaling up across sub-segments in these markets. This leadership position creates a strong virtuous-cycle (Refer Exhibit 52) that strengthen its moat in a particular market, as more vendors and advertisers want to incrementally work more & more which in turn brings in varied inventory and more data point for Consumer database implying more conversions at lower cost. Such scale is difficult to achieve for other players as it needs different tech stack investment and understanding of demographics in cost-conscious market such as India/Indonesia. Affle's moats are largely in two areas 1) ability to convert users at better unit economics (with better filtering and ad-fraud protection) and 2) ability to attract more advertisers and varied vendors given his wide offering and RoI centric models.

Challenges with Indian Market: India is a difficult market as CPCU rates are very low (implying much lower conversion price in India than developed markets – typically 40-70% lower than other markets) and low shopper ratio of 17%. For example: - India has about 600mn of connected devices but actual shoppers are just 100mn (this ratio of just 17% odd net-shoppers is much lower than developed market where about 80% of smartphone users do mobile-commerce). Thus, for any new player, it is very difficult to setup and invest in infrastructure given lower CPCU realizations and wider needs given diverse demographic profiles. Affle has already achieved deep insights as it has deep-science powered DMP that uses its superior data-distillation process to identify shoppers accurately from large number of web-surfers (window-shoppers) and manages to achieve low data and inventory cost given its potent fraud-detection software. Affle is furthering investing into vernacular capabilities to further strengthen its lead over potential competition.

Exhibit 52: Virtuous Cycle that makes big gets bigger, early mover gains for Affle
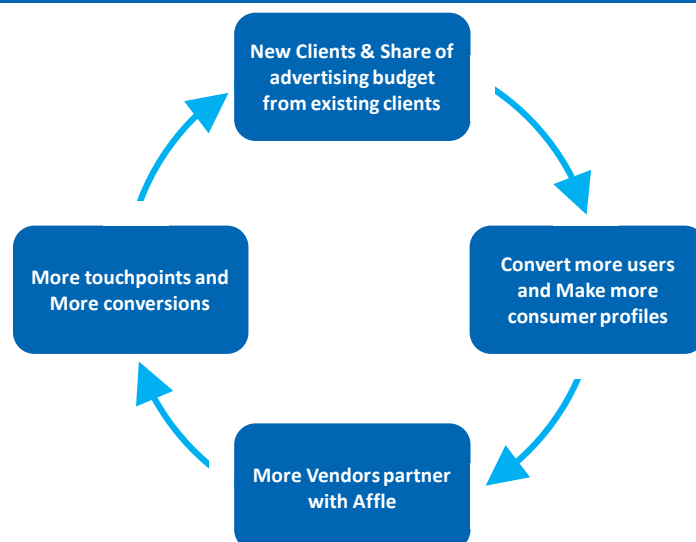
Source: DART, Company

Differentiation 2: Strong Relationships and Execution

Affle's major strength resonates from its' relationship and trust with customers given its consent-led, regulation abiding and ethical approach. Strong relationship is reflected from the fact that it has been working with all leading ad-agencies as well as many marquee advertisers directly (such as became key advertising partner for Amazon in India in 2015). Affle India currently holds sub-2% market share in India Digital Advertising space. In the current environment, Affle's market share is minimum to worry about competition from Google and Facebook due to its' size in the market. Also it can co-exist along the large players as advertiser can directly spend on Google and Facebook for user acquisition or use Affle's consumer platform for acquiring users irrespective of platform on fixed ROI basis. Affle's platform offers a success-based-fees model that many advertiser/investors prefers.

Client concentration: Incrementally more and more clients have started engaging Affle directly as compared to agency-led model given its improved trust and multi-year relationship. This in turn is driving up realizations to some degree despite declining inventory cost. Also, as a result its client concentration has been coming off over the years. Top client in FY19 accounted for about 22% of revenues while in FY20 – top customer accounts for just 10% of its revenues.

Exhibit 53: Client Concentration

Particulars (Rs. Mn)	FY19	FY20	YoY
Top Customer	549	492	(10.4)
Top 2-10 Customers	1,060	1,027	(3.1)
Non-Top 10 Customers	885	1,819	105.5
Total	**2,494**	**3,338**	**33.8**

Source: DART, Company

Differentiation 3: Vertical based diversification

Affle has disclosed some key performing verticals that collectively accounts for about 90% of its Revenues in Q1FY21. Till FY20 these segments contributed about ~75% for Revenue in India and about 70-80% of its revenues Outside India. These segment is abbreviated as EFGH - eCommerce (30%+ of Revenue), Entertainment, Education, Fintech, Foodtech, Gaming, Government and Healthtech. Affle expects these categories as high growth verticals and for these vertical ad spends aren't discretionary in nature as mobile is emerging as the primary mode of reach-out medium. Some of these spends are also led by aggressive customer acquisition strategy especially in the eCommerce, Foodtech and Fintech segment.

Risk from VC/PE backed companies not visible yet: In the past we have witnessed certain occasions when spends by VC/PE players do get impacted for Example, from 2015, certain startups within these verticals have witnessed decline in ad spends when funding dried up which Affle has managed very well (impact was from a single client). However, in current economic environment, there is bigger risk of short-term funding mismatch across the space (Nasscom survey: 70 percent of startups have less than three months of cash runway) and thus the impact of slowdown in advertising spends can be widespread (unlikely selective to few startups like earlier). However, the same has not been observed by Affle yet and on the contrary has seen significant ramp-up in Jun'20 wherein his revenue run rate have surpassed Rs10mn per day mark on organic basis. This concern was part mitigated by its diverse vertical offerings where the high-growth segments of EFGH were able to cover up for troubled segments such as Travel/Hospitality.

Exhibit 54: High growth Verticals now accounts 90% of its revenues

Category	Vertical
E	E-commerce I Entertainment I EdTech
F	Fintech I Foodtech I FMCG
G	Gaming I Groceries I Government
H	Healthtech

Source: DART, Company

Differentiation 4: Responsive and Responsible

Affle has cracked the winning formula given the fact that its founders were early believer of the opportunity and has evolved its offerings over the years as the spends on Internet (both time and money) moved to Mobile device. Although, many more players rightfully identified this trend but only few could scale up despite very strong business dynamics. In our view the key differentiating factor that can be attributed to this success is its Responsive (evolved with technology) and Responsible (spent judiciously on organic/inorganic needs) behavior. Affle has evolved its offerings to full-stack player now compared to its humble start of SMS based marketing player. Management also ensured judicious capital allocation towards organic/inorganic needs despite having many marquee investors on board. The focus of the management was always on achieving profitable growth and thus created unique CPCU model that rewards for efficient outcomes (both to vendor as well as client) compared to more popular and commoditized cost-plus models such as CPC, CPI etc.

Differentiation 5: Creating exclusive data pool

With business now scaled and having achieved strong profitability and operating cashflows, the company is now investing in creating assets that can evolve it from independent Ad-tech player to a full-fledged Data Platform player. This strategy will help it create its own treasure trove of consumer data that it can leverage exclusively much like what the other Walled Gardens do. To achieve this goal, the company has acquired AppNext a unique company that gave access to the on-device-based monetisation from being an in-app player. The acquisition provides exclusive access to multiple points on the screen and thus empowers it to learn and engage with consumer more intelligently with near omnipresence reach, which can empower its DMP meaningfully, driving multi-year high growth in conversions.   Also, its strategic investments of IndusOS and Bobble AI augurs well with its focus on vernacular capabilities (that would form significant part of incremental consumers in India) on most important aspects on the device viz. App Store (OEMs such as Samsung, Micromax) and Interactive Keyboard (Xiaomi - MI) respectively.

Differentiation 6: Client focus strategy

Another big factor on why clients do not prefer large players such as Google/FB is their lower level of customization and client level strategy. For instance, Large vendors prefers that the client should simply log on to their platform (Ex: Facebook Account Manager) and run the entire ad campaign on their own, while independent Ad-techs such as Affle help run the campaign. They even provide filters (10-15 attributes) so as to restricts the ad display in non-relevant market/regions of the publisher, which results in more successful campaign (better conversions).

Affle has created significant tools that also helps it piggyback on opportunities created by large players such as 1) It has created customized filters on Facebook Account Manager, and 2) its retargeting offering sits on client CRM and plugs in data form Google Ads through APIs.

Now with its recent acquisitions and strategic investments Affle has now started creating a holistic offering for his clients around in-apps, app-store, vernacular, on-device discovery and so on. Thus, offering a unique combination of services which are not even possessed by the larger peers.

Exhibit 55: Client centric offerings powered by tech-capabilities

Attributes	Walled Gardens	Affle
Customization	Can't reach/service small customers	Can service even clients with low traffic (less than 100k visitors per month). Serves across various KPIs set by clients.
Campaign management	Expect advertiser to run on their own	Assist the client as all are not tech-savvy and also many do not prefer to handle it and instead like to work as an affiliate.
Ad-exchange	Universal	Blocks several regions as product may not be relevant across regions of that publisher's user markets.
Tech-focus	True Innovators	Fast adoption:- Example: Overcame the concern around the push-notification blockage by Chinese OEM in just a week, enabling notifications whenever phone wakes up.
Affiliate and not competitors	Controls 2/3rd of market share (and growing).	Affle is riding the growth of these players as it has created filtering on Facebook Account Manager, its re-targeting app sits on Google Data and Amazon has been his top account.
Platform	Many – Social Media, Browser, Search, Appstore, OS, Video Apps etc.	Building foundation across areas such as OEM, Appstore, InApps, Connected Devices, Interactive Keyboard etc.
Integrated Tech	Leverages across platforms	Has created good sync that enables cohesive outcome across his platforms (Revx, Vizury, Affle has different algorithm but works uniformly across client CRM).

Source: DART, Company

Decoding Regulation Risk

Public perception related to the privacy of personal information and ever-growing power of large technology companies (especially Facebook, Amazon, Google and Apple) have shifted rapidly which has influenced regulators globally to issue stringent Regulations in this business segment. For example: State of California launched CCPA law for the state of California in Jan' 2020 while EU has implemented GDPR (General Data Protection Regulation) regulation across European Union since May 2018. In India a revised data regulation bill has been proposed in Dec' 2019, although it is still not become an act. Infact, as of today nearly ~90% of Affle's revenue comes from market where there are no existing regulations on data privacy. However, as a proactive and responsible player, Affle has been abiding to very stringent data-privacy regulations that are compliant to standards set by Singapore Government. Also, it has always believed in consent based contextual delivery of Ads to its consumers.

What is proposed in India: Regulations relating to data privacy largely follow clear consent, high level of transparency (collection, processing of data) and localization of sensitive data. There are sections within these requiring limitations to the type of data. CCPA is largely an opt-out law which consumers need to state that want to opt-out while GDPR is an opt-in law where-in consumer should provide consent. India's proposed regulation largely follows GDPR regulations.

Trends and its Implications:

- CCPR and GDPR still allow targeting using contextual and behavioral indicators. These are having been stifled by regulations.

- CCPR and GDPR risk have been largely around use of third party data and first party data. Some regulations restrict use of first party data.

- Affle uses behavioral and contextual targeting in terms data is fairly immune from privacy based regulations.

- Data localization and 'user request to delete data' trends can be a risk as Big-data and ML is dynamic always keeps learning from past data from different country and processing data at one place.

- As companies become more pro-active regarding data protection of consumers. The practices of first party data sharing to Ad-Tech players.

- Global regulators have been pro-active in fining companies for violations (Google paid $166mn in anti-trust fine over inconsistent ad rules in 2020 and InMobi paid $950K fine over illegal location tracking in 2015).

Affle's positioning: In the last two and a half years, it have been accredited for its entire tech stack by the Infocomm Media Development Authority (IMDA) of the Singapore Government under the SG:D accreditation programme. Affle expects emerging regulations to largely finalized in 3 to 5 years and follow the lines of GDPR. Affle already complies with GDPR across its' operations despite low developed market presence. Affle is a stake holder in the regulation discussions in India and is sharing its inputs/suggestions.

Key Risks

- **Regulatory Risk:** Public perception related to the privacy of personal information and power of large technology companies has shifted rapidly which has influenced regulators globally to issue guidelines and remained concern about the privacy of user data. Two large bodies have announced their regulations: **CCPR and GDPR** (which limit the storage and level of data collection). Currently, Affle is following the GDPR regulations across its business operations. Risk of Regulation is largely possible only if Indian Regulators push regulations more restrict or regulations restricting any data sharing or collection. As of Now, the Indian Data Privacy Bill doesn't restrict or have any aggressive regulations affecting Affle's business.

- **Ad-Tech players have scaling issues:** The Ad-tech market is filled with large number of DSP, DMP and other Ad-tech players. Many of the Ad-tech players are largely similar in nature and have faced scaling issues or profitability issues after achieving a certain size. So far there has not been many large players in this industry even in west, the large one are only the one with data platforms.

- **Temporary Startup Tailwind:** A moderate chunk of Affle's customers are startups (VC funded). Since 2015, certain startups have witnessed decline in ad spends in relation with their VC funding. This has been largely managed well given it being a singular impact from one company. However, current economic environment, where funding has dried up across the space and firms have limited cash (Nasscom survey: 70 percent of startups have less than three months of cash runway). The impact of slowdown in advertising spends can be widespread (unlikely selective to few startups like earlier).

- **Acquisition Risk:** Affle has remained aggressive in acquisitions to build an end to end digital marketing solution. Affle's strategy has been largely to acquire turn-around businesses. With Ad-tech known to be have acquisition heavy, there is a risk in case of failed acquisitions. Example failure to integrate the technology with Affle's tech stack.

About Company

Affle Holding Structure

Affle India is owned by Affle Holding (Corporate Promotor) via Affle Holding (52.6%) and Affle Global (15.76%) – collectively 68.36%. Affle Holding is a Corporate Promoter based out of Singapore. Anuj Khanna Sohum is the promotor of Affle Holdings. The rest of the stake was diluted through pre-IPO placement to Malabar (7.4%) and 24.2% through IPO raising Rs900mn and Offer for sale of about Rs3690mn.

Key Investors in Affle Holdings:

- **Microsoft Global Finance:** Microsoft India invested 20% (later diluted) in Affle in 2009 in Series B funding. At this time Affle was providing its' SMS 2.0 Services to Bharti Airtel.

- **D2C Inc:** D2C Inc, digital advertising agency, is a Japan based JV between NTT Docomo and Dentsu. D2C invested $10mn in 2011.

- **Bennett & Coleman:** invested in Affle in 2009 in Series B round (potentially through Inventory-Equity swap).

- **Itochu Corporation:** Itochu Corp invested in Affle in 2009.

Corporate Promotor History:

Before IPO, the Corporate Promotor has done restructuring within Affle's International Subsidiaries wrt the ownership of Affle Subsidiaries. Affle International Pte. Ltd. was incorporated on April 1, 2018 and it acquired the business in PT Affle Indonesia from Affle Global Pte. Ltd from July 1, 2018 for $1.9mn. Affle International is a subsidiary of Affle India.

Exhibit 56: Material Ownership details for Affle Holdings

Particulars	Ownership %
Fess Old New Pte Ltd (Anuj Khanna holds directorship)	28.11
Affle Global Pte Ltd	13.13
D2c Inc.	9.09
Microsoft Global Finance	6.23
Anuj Khanna Sohum	6.04
Anuj Khanna Investments Pte Ltd	5.95
Bennett, Coleman & Co. Limited	5.19
Itochu Corporation	3.78
Richard Alan Humphreys	3.02
Madhusudana Ramakrishna	2.39
Centurion Private Equity Ltd	2.08
Benjamin Fones Tse Min	1.76
Sam Balsara	1.48
John Patrick Baron	1.14
Pang Sheng Dong	1.08
Anuj Kumar	0.87

Source: DART, Company, RHP

Exhibit 57: Affle Holding Structure
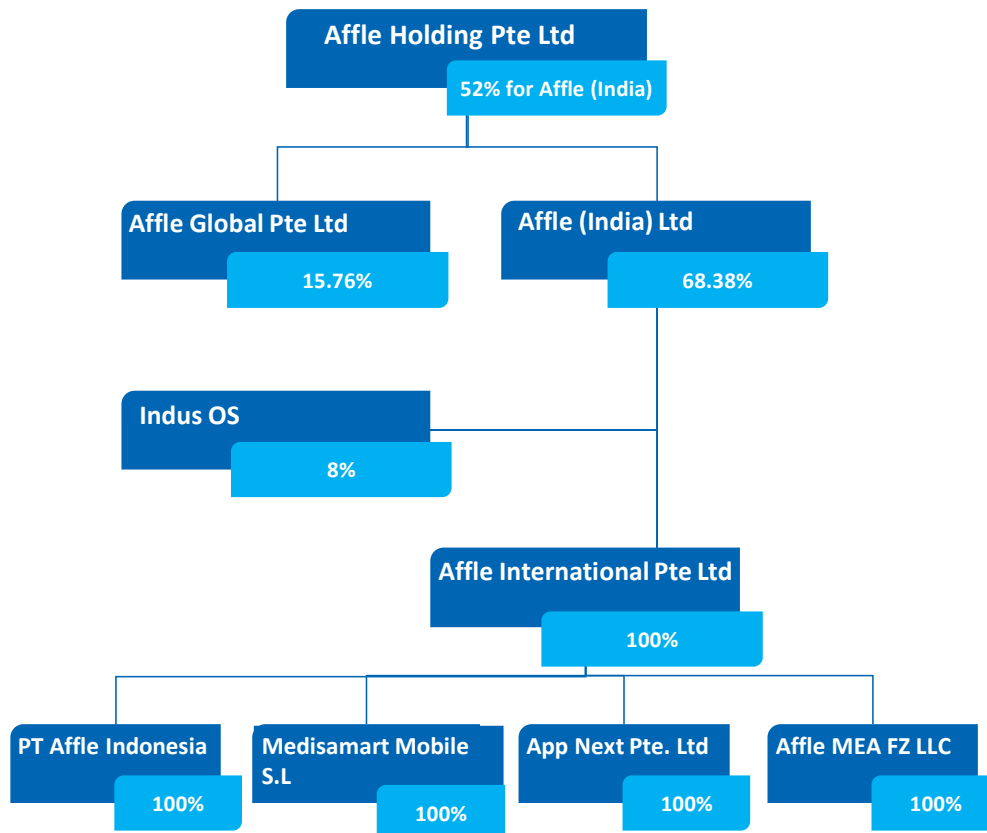
Source: Company, DART

Founder - Background and History:

- Anuj Khanna Sohum founded Affle by acquiring "Tejus Securities Private Limited" in Jan 2006.

- Anuj Khanna Sohum is a 41-year-old Tech-Entrepreneur. He completed a bachelor's degree in computer engineering from the National University of Singapore on a full scholarship. He has also completed the Stanford Executive Program from Graduate School of Business, Stanford University and the Owner/President Management Program from Harvard Business School. He also received a full scholarship for a Ph.D-MBA program at NUS, which he did not complete.

- Anuj Khanna Sohum started his first startup at the age of 20 during undergraduate degree called "Anitus Technologies". Anitus Tech was into knowledge and document managing, got acquired by Malaysian conglomerate MCSB, which renamed it myMCSB.

- His second startup "SecLore" which information security which was acquired by Herald Logic in 2007.

Board of Directors and Key Management Personnel

Exhibit 58: Board Composition: Affle India

| Board of Directors	Key Information
Anuj Khanna Sohum	Anuj Sohum is a Founder, MD and CEO of Affle. He is a technopreneur with over 19 years of experience in leading technology products / platform-based businesses.
Anuj Kumar	Anuj Kumar is Co-founder, Executive Director and also Chief Revenue & Operating Officer, He holds a PG diploma in Communications from Mudra Institute of Communications, Ahmedabad and has 18 years of experience in advertising and technology platforms based business roles. His past experience was with J Walter Thompson (JWT), WPP Marketing India Pvt. Ltd. and ESPN Software India Pvt. Ltd.
Sumit Mamak Chadha	Sumit Chadha is a Non-Executive Independent Director and Chairperson of CSR Committee. She holds a masters from Delhi School of Economics and 27 years of experience in BFSI and has previously worked in Citibank N. A. India as a Director for 20 years and at BlackRock Services India Pvt. Ltd. for two years as Managing Director.
Vivek Narayan Gour	Vivek Gour is a Non-Executive Independent Director and Chairperson of Audit Committee. He holds an MBA from FMS, University of Delhi. He holds over 32 years of rich experience across industries and has worked with Genpact India, GE Capital Services India and held the position of MD & CEO in Air Works India (Engineering).
Bijay Nawal	Bijay Nawal is a Non-Executive Independent Director and a Chairperson of Nomination & Remuneration Committee. He holds a bachelor's degree in jurisprudence from the University of Oxford. He holds the position of the Managing Director in the Camford Law Corporation, the Singapore member firm of PWC International.
Naresh Chand Gupta	Naresh Gupta is a Non-Executive Independent Director at Affle. He is a doctorate from the University of Maryland. His past experience was with LNK Corp., Inc. as Director-at Applied Artificial Intelligence Group and Senior VP-Print & Publishing Business Unit at Adobe, Inc. MD at Adobe India R&D Center and Adobe India Pvt Ltd.
Sudhir Mohan lal Jatia	Sudhir Jaita is a Non-Executive Independent Director at Affle and holds the position of Chairman & Managing Director at Safari Industries (India) Ltd. He is also on the board of Safari Investments Pvt Ltd., Safari Lifestyles Ltd and Member of Safari Sales Pvt Ltd.

Source: DART, Company

Exhibit 59: Management Team

Name	Position	Experience	Past organizations
Anuj Khanna Sohum	Founder & CEO	19 years of experience in leading tech & data platform-based businesses.	Startups Anitus Technologies and Seclore.
Anuj Kumar	Co-Founder, CRO & COO	17 years of media and advertising industry experience.	ESPN STAR Sports, GroupM Mindshare and JWT
Kapil Bhutani	CFO	20 years of audit and industry experience	KMG Infotech, a NY based software Co
Mei Theng leong	Chief Financial & Commercial Officer (International)	18 years of experience	Diversified group listed on Singapore SE
Vipul Kedia	Chief Data & Platforms Officer	13 years of experience in Consulting and Adtech.	IBM business consulting specializing in the Telecom Practice.
Charles Yong	Chief Architect & Technology officer	Over 20 years of consulting and programming design experience (14 years in Affle).	Founder and CTO of Okilabs (which he continues to run now)
Madan Sanglikar	Co-Founder, Managing Partner - South East Asia & Chief of Staff	20 years in the Media Industry.	Mindshare.
Viraj Sinh	Co-Founder, Managing Partner - International	15 years across advertising, media and technology.	Joined post-acquisition of Mobimasta (his company) by Affle.
Elad Natanson	CEO- Appnext	17 years in digital space and mobile user acquisition area.	Continues to handle Appnext as a CEO. Prior to Appnext, He founded Prime Gaming.
Noelia Amoedo	CEO - Mediasmart	extensive experience in the of mobile, internet and social media.	Managing partner at NODEOM (consulting company).
Martje Abeldt	Chief Revenue Officer - Revx	20 years in ad tech, IT, mobile, high-end consumer goods, and SaaS.	REMERGE - App Retargeting platform for APAC; leading App Annie in Central Europe, Russia, and CIS.
Sujoy Golan	Chief of Marketing & Omnichannel Platforms	14 years across FinTech, E-Commerce, Ad-Tech and SaaS.	Lendingkart.
Danny Tuttnauer	COO - Appnext	Danny has led several startups, including a successful digital media tech company for 10 years.	Responsible for the finance & HR activities
Vikas Khoria	Global Director - Business Operations (Revx)	15 years of experience largely in Adtech.	Criteo, Amazon and Inmobi
Ankit Rawal	Director - BD & Partnerships (vizury)	13+ years of experience from Microsoft & Oracle to upstarts like GreedyGame & InMobi	GreedyGame.
Shailesh Garg	Executive Director - Technology (Revx)	16+years with product technology companies.	Novell, Webaroo, Amazon, Komli & RevX.
Eran Kariti	Chief Technology Officer - Appnext	20 years in the telecommunications, gaming and mobile domains.	CTO of one of the biggest social game companies.
Guillermo Fernandez Sanz	Chief Technology Officer - Mediasmart	20 years of experience in mobile, telecommunications and e-commerce.	He ran his own incubator Bipmo for mobile related projects.
Nagendra Dhanakeerthi	Technology Director - Shoffr	10 years of experience	Prior to founding Shoffr, he was working at Techstars, Singapore.
Kulpreet Singh	Lead Architect & Technology Director	~10 of experience in the mobile technologies and building scalable technology products.	Lumata.

Source: DART, Company

Financial Performance

Revenue traction to sustain for longer: Affle is well-placed within the fast growing digital advertising industry which is placed to grow 10%+ globally and will have double digit growth in India over CY20. With increased relevance of mobile advertising, strong above industry average performance in Indian markets, expansion into other developed markets, strengthened product portfolio with acquired businesses, we believe Affle has multiple levers to sustain the growth momentum. Taking these factors into account we have built-in revenue CAGR of about 29.3% over FY20-FY23E and 25.9% over FY20-F25E. Any break-through in the acquired businesses (Shoffr, RevX, Vizury – Engage 360) when they scale-up their PaaS and SaaS offerings and scale-up of expansion plans into International market (Europe, LATAM, US, Korea) will provide further upside to our estimates.

Exhibit 60: Affle to deliver a Revenue CAGR of 29.3% over FY20-FY23E
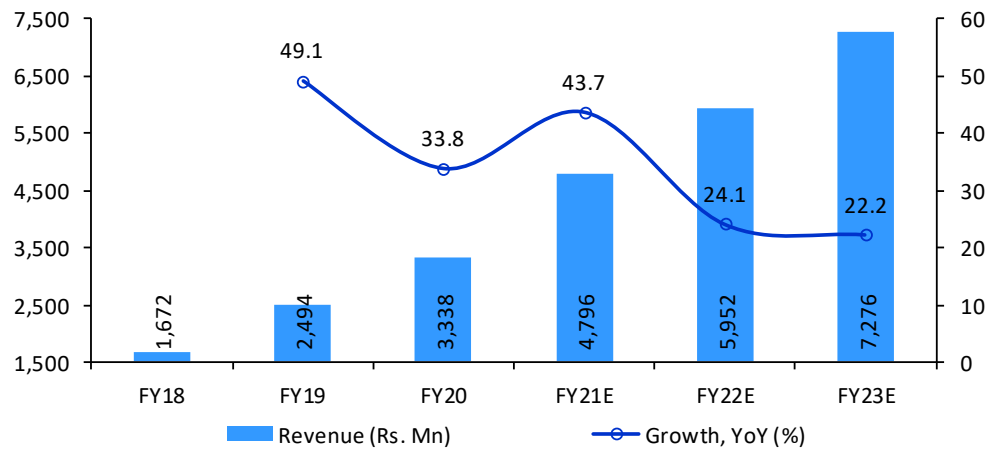
Source: DART, Company

CPCU Business (88% of Revenue): Affle derives its' CPCU business revenues from number of converted users (CU in FY20 were 72mn) as it receives a revenue per conversion called CPCU rate (CPCU rate in FY20 was Rs.41). The core lever for growth is scale in number of conversions over time as CPCU rate remains largely (organically) stable. We expect Affle to deliver average 120mn conversions over FY21-23E in the Indian markets as it remains the fast growing market for Affle. This will be led by increased penetration of smartphones and velocity in number of conversion by each user. The International Market growth is driven by increasing penetration story in Ex-India Emerging markets (SE Asia, LATAM) as well as some expansion in International markets. Taking these factors into account we have built-in revenue CAGR of about 26.2% over FY20-FY23E and 24.7% over FY20-FY25E for CPCU Business. As CPCU rate in International market are 3-4x of India market, we expect both markets to contribute moreover equally despite the higher conversions in Indian Market.

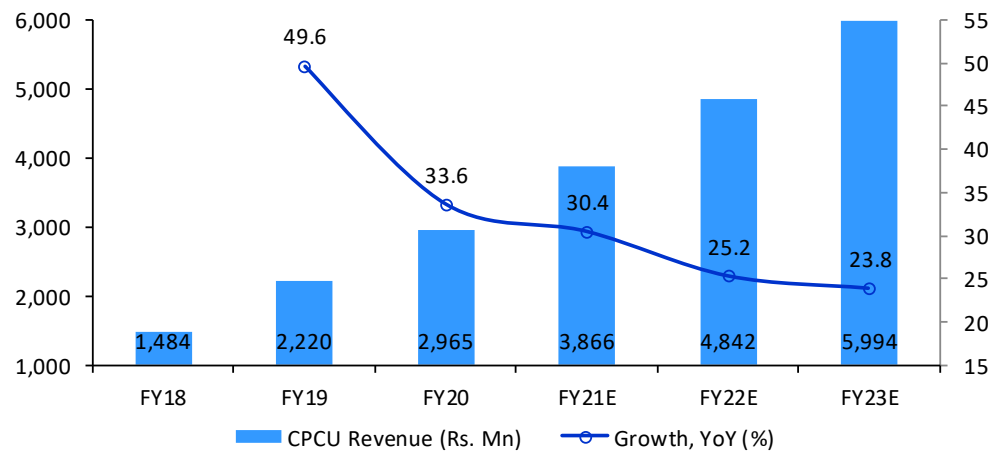**Exhibit 61: CPCU Rate (Rs abs) to remain stable over time**
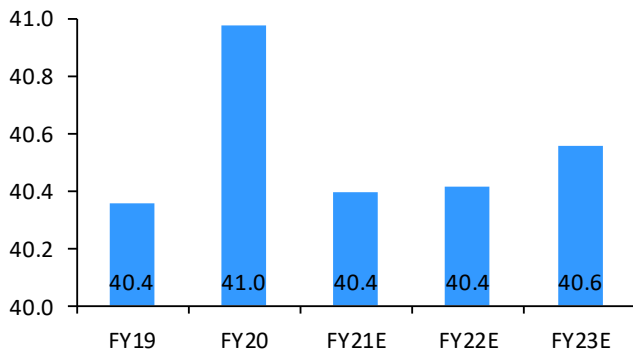
Source: DART, Company

Exhibit 62: Growth to be led by Conversions (Mn)
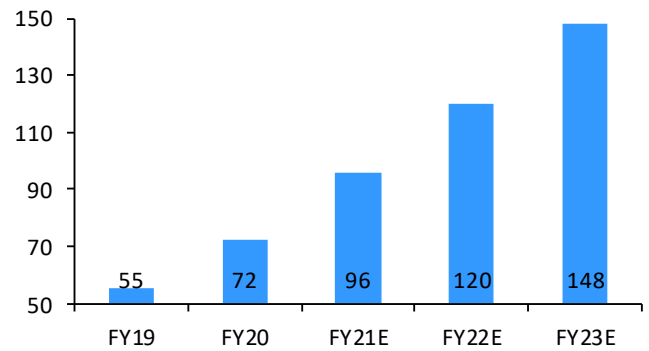
Source: DART, Company

Exhibit 63: CPCU Business to deliver a CAGR of 26.2% over FY20-FY23E
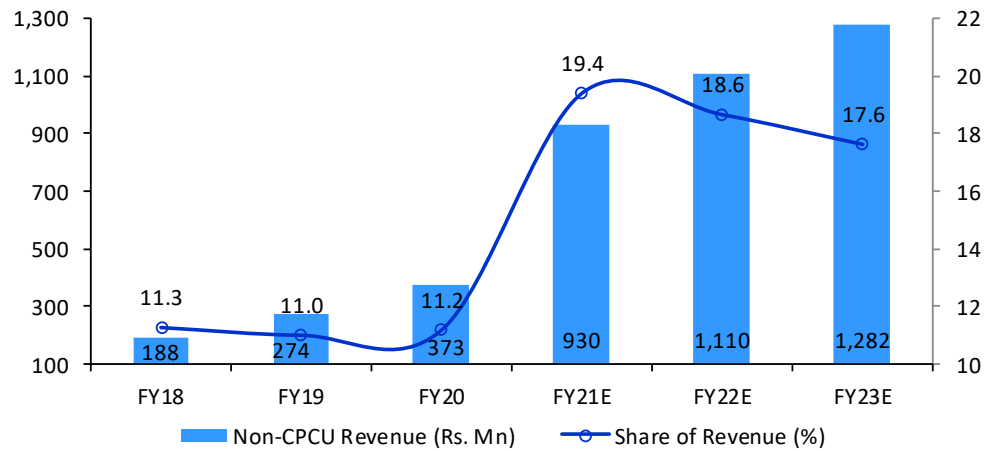

Source: DART, Company

Non-CPCU Business (12% of Revenue): The Non-CPCU business for Affle includes Enterprise business (App Development and Online2Offline implementation, 2.8% of Revenue) and Marketing/Retargeting opportunity within the Consumer Business. For Ex: PaaS / SaaS business components of Vizury Engage 360, part of retargeting business – RevX and other marketing spends (ex: Mediasmart – Proximity based marketing, or Impressions based CPM advertising business).

The Non-CPCU business has gained scale in H2FY20 (68% growth in H2) as large part of the Mediasmart revenues has been accounted in Non-CPCU business from Q4FY20 and Engage-360, certain portion of re-targeting biz have witnessed some improved traction. The PaaS portion of Non-CPCU revenue is accounted on Subscription fees based revenues. We expect Non-CPCU Business to grow at 50.3% CAGR over FY20-23E and 34.4% over FY20-25.

Exhibit 64: Non-CPCU Business to deliver a CAGR of 50.3% over FY20-23E

Source: DART, Company

Inventory & Data Cost to mimic revenues: Inventory and Data Cost is the major cost factor for Affle's business as is it akin to Inventory. 90% of Inventory and Data Cost is the cost of advertisements and Cloud Hosting Cost. The Inventory & Data Cost is advertising cost to paid the publishers irrespective of the conversion in CPCU biz. Cloud Hosting requirement is expected to scale as revenue scales up (3x increase in Cloud hosting in FY20 was led by re-pricing by AWS– hosting charges and also by induction of the costs from acquired entities). Affle also spends 2% of Inventory & Data for listening to data in Tier 2 and Tier cities for capturing vernacular data (these are steady investments to improve efficacy). Conservatively, we expect the conversion efficiency to remain largely flat over next few years and expect Inventory and Cost to mimic the total revenue growth.

Gross Margins to decline marginally: The gross margins have reduced by 380bps in FY20 to 42.4%. The Gross Margins have declined over the FY20 period due to weaker performance of acquired business (bought near break-even stage) and weaker conversion efficiency in FY20 (IDC cost increased by 9% on per Converted CU basis, imply (9% increase in cost to conversion one user). Going forward as the profitability of acquired businesses improve to company performance we expect Gross Margins to revive in a gradual manner. Any scale-up in PaaS revenue of Non-CPCU biz may boost-up margins favorably as have very limited incremental costs linear.

**Exhibit 65: Gross Margin to decline due to lower profitability of Acquired business**
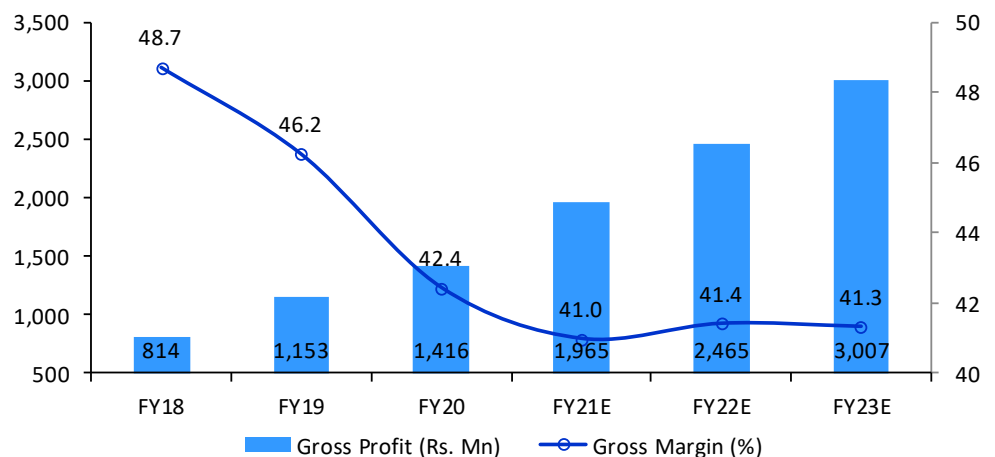
Source: DART, Company

Employee Cost and SG&A Cost: The Employee Cost has inched up significantly over FY20 (28% YoY) as Affle acquired businesses and increased employee base by 130 to 295 employees. Going forward, we expect employee cost to deliver positive operating leverage as the business is not employee intensive as it grows. However, SG&A Expenses have grown only 11.4% in FY20. This saving is largely on account of lower Business Promotion Expenses and higher visibility due to IPO. But this run-rate will see only an uptick as it invests in international markets and resumes business promotion spends in CY21.

EBIT Margin: As of FY20, the company has reported a decline of 180bps in EBIT margins at 23.8%. The margins declined due to lower profitability of acquired businesses. Company expects the acquired businesses to improve profitability by end of FY21E. Inorganic revenue stream (Mediasmart and Appnext) to accounts for 8%-10% PAT in FY21. We expect OPM to gradually improve driven by improved profitability of acquired businesses, positive operating leverage but this would get largely negated by the amortization (4-year amortization schedule) of intangibles and capitalized costs. By FY23E and FY25E, we expect margins to be at 22.0% and 24.0% respectively. The scale of up of PaaS business will act as an upside potential to our EBIT estimates.

Exhibit 66: EBIT Margin to gradually improve from FY22E
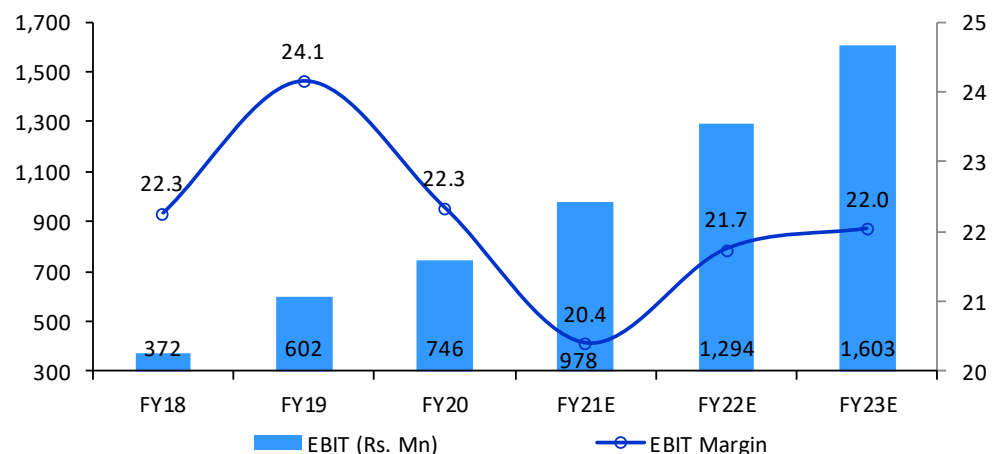
Source: DART, Company

PAT: Affle reported PAT of Rs.655mn in FY20 delivering a growth of 34.2% on YoY basis. The PAT margins remained the same at 19.6% despite EBIT margin decline in the year, on account of higher Other Income (Interest earned on high cash balance of Rs1.2Bn due to IPO). The PAT after adjusting for capitalized cost declined by 6% YoY due to 3x increase in Capitalized Cost.

Exhibit 67: PAT Margin Trend
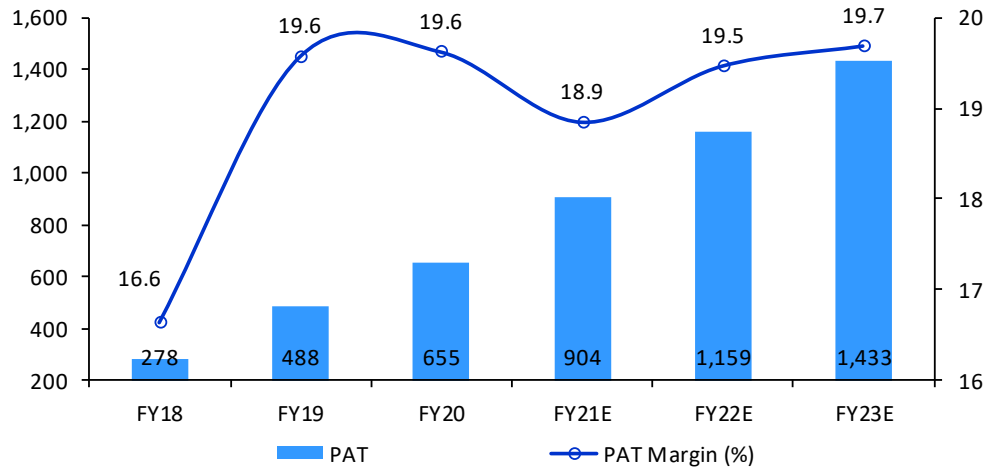
Source: DART, Company

Capex: Affle spent around Rs. 320Mn in R&D capitalisation in FY20. The fixed assets capex is likely to remain largely around replacement of laptops and expected to be Rs.10-11Mn per quarter. Going forward, large part of Capex spends will be towards R&D in upgrades and improvement to the Tech Stack and Platforms (namely in the platforms Affle, Shoffr, Appnext, Mediasmart, RevX & Vizury), We expect Affle to spend around Rs. 300mn every year for the R&D efforts around development of the platforms. Affle will capitalize most of the R&D efforts along the guided expectation of Rs280 Mn annually ($1mn every quarter).

Acquisition Payments / Earn outs: Affle paid (cash outflow) Rs.878mn for acquisitions (mainly Mediasmart, RevX) in FY20. In current year, it is expected to have an outflow of ~Rs.1.5Bn on largely on account of Appnext acquisition payment (Rs.650mn), purchase of minority stake in Bobble AI and Indus OS and first earn out (out of four earn outs totaling Rs.50mn ($0.7mn)) for Mediasmart. These acquisition payments will lead to negative FCF in FY21 of ~Rs.1Bn (like FY20 FCF was negative 468mn). Post FY21, the pending Acquisition / Earn out payments will be Rs. 650Mn. ($8mn) towards purchase of remaining 33% stake in Appnext and three tranche remaining ~Rs.37mn (Rs. 12.5mn each year) earn outs for Mediasmart.

Exhibit 68: Acquisition and Earn out Trend
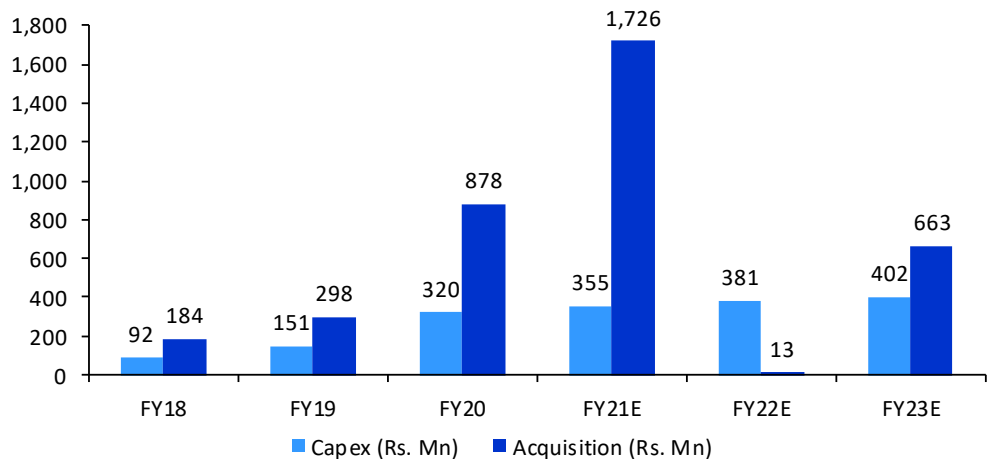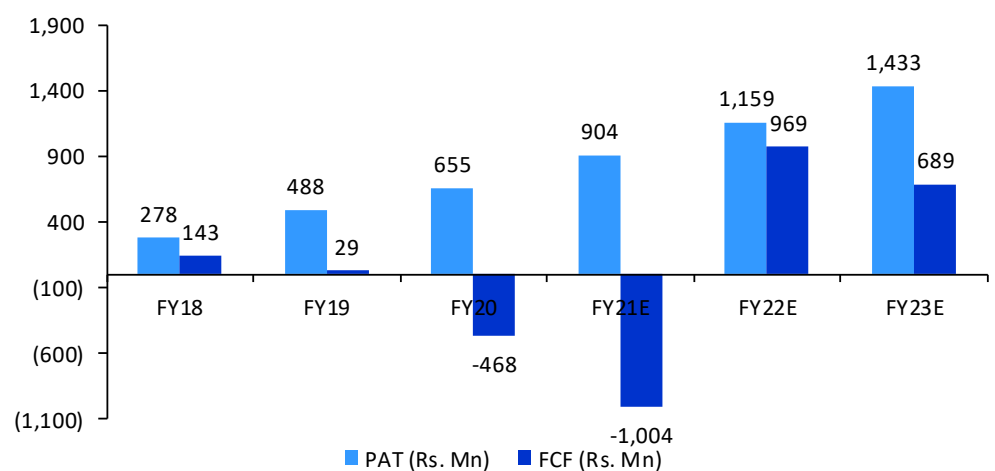

Source: DART, Company

Free Cash Flow to improve from FY22 onwards: Affle delivered a negative Free Cash Flow in FY20 of Rs. 468mn and is expected to deliver negative FCF in FY21 as well. Prior to FY20 as well, FCF remained weak due to acquisitions. Going forward, as it has built its' product portfolio we expect FCF to jump to sub Rs.1.0Bn in FY22. The FCF in FY23 is expected to be lower due to second tranche payment towards acquisition of balance 33% in Appnext for ~Rs.650Mn.

Exhibit 69: Acquisition to impact FCF for near term
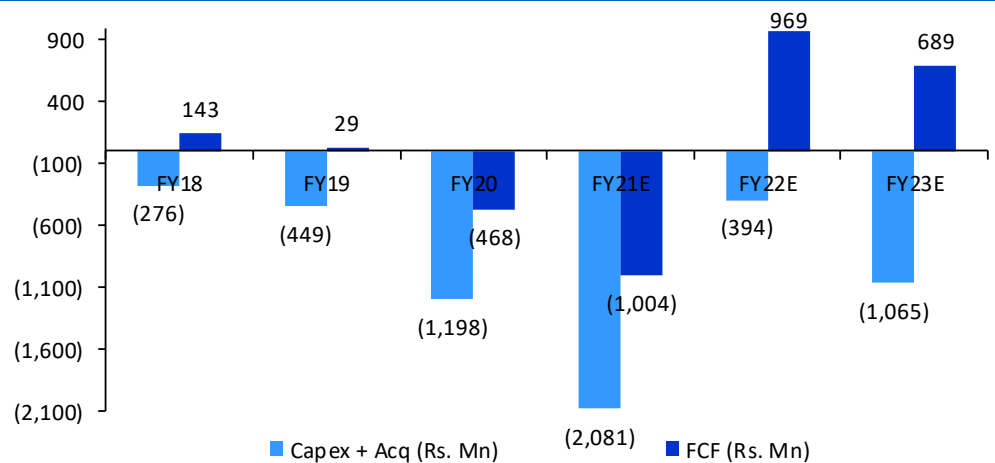
Source: DART, Company

Exhibit 70: PAT and FCF Trend: FCF to Improve after FY21

Source: Company, DART

Cash and cash equivalents: In FY20, Cash & equivalents stood at Rs1.2bn boosted by IPO proceeds. During FY20, the company took debt from the Affle Holding Company (at 2-3% rate) to fund its acquisitions of Mediasmart. The debt is expected to elevate by end of FY21 for payment of Appnext Acquisition and then gradually decline.

Exhibit 71: Cash and Debt Trend
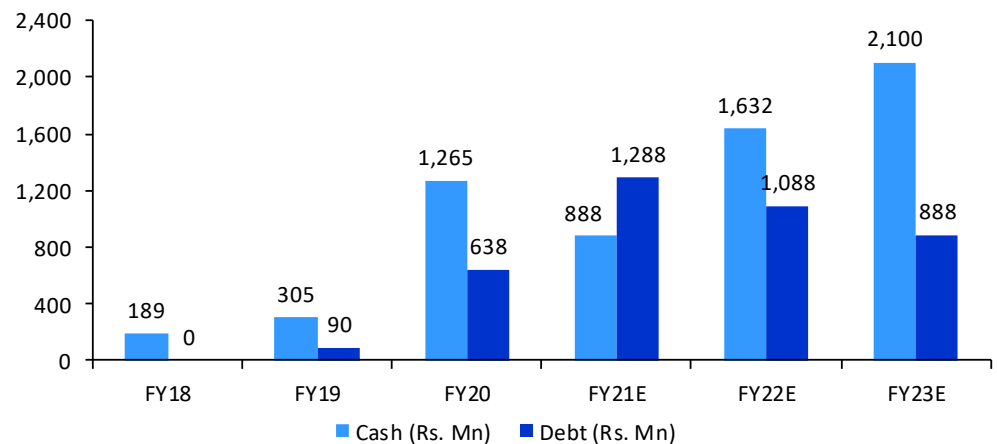
Source: Company, DART

Exhibit 72: Quarterly and YTD Trend

Particulars (Rs. Mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTDFY20	YTDFY21	YoY (%)
Revenue	746	847	945	800	898	20.4	12.2	746	898	20.4
Operating Expenditure										
Inventory & Data Cost	428	486	549	459	516	20.7	12.4	428	516	20.7
as % of sales	57.3	57.4	58.1	57.4	57.5			57.3	57.5	
Emp. & Other Cost	131	144	123	139	157	19.5	12.5	131	157	19.5
as % of sales	17.6	17.0	13.0	17.4	17.5			17.6	17.5	
EBITDA	187	217	273	202	225	20.3	11.5	187	225	20.3
Depreciation	25	29	32	48	43	75.4	(10.8)	25	43	75.4
EBIT	162	189	241	153	182	12.0	18.5	162	182	12.0
Other Income	1	4	13	28	19	1,474.8	(31.2)	1	19	1,474.8
PBT	163	193	255	182	201	23.0	10.8	163	201	23.0
Total Tax	32	37	40	29	13	(57.6)	(53.3)	32	13	(57.6)
Reported PAT	132	156	214	153	188	42.3	22.8	132	188	42.3
Reported EPS	5.43	6.32	8.60	6.10	7.36	35.6	20.7	5.43	7.36	35.6
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	25.0	25.7	28.9	25.2	25.0	(1)	(16)	25.0	25.0	(1)
EBIT	21.8	22.3	25.5	19.2	20.2	(151)	(638)	21.8	20.2	(151)
EBT	21.9	22.7	26.9	22.7	22.4	48	(427)	21.9	22.4	48
PAT	17.7	18.4	22.7	19.1	20.9	322	(360)	17.7	20.9	322
Effective Tax rate	19.3	19.1	15.7	15.8	6.6	(1,265)	2	19.3	6.6	(1,265)

Source: DART, Company

Peer Group

Ad-Tech and Marketing Tech Peers

- **TradeDesk:** Tradedesk is the largest Demand Side platform for real time purchase of ads by agencies and brands. Tradedesk is a SaaS based platform which acts as a DSP and allows advertisers to manage data-driven ad campaigns within their set parameters. TradeDesk had revenue of $661mn in CY19. TradeDesk trades at PER of 249x trailing basis and PER of 190x on forward basis. Tradedesk is valued at $26Bn and is viewed as a viable advertising marketplace alternative to Google.

- **Criteo:** Criteo is a retargeting ad-tech company that works with E-commerce and Retailers (significantly on desktop). Criteo has 20,400 advertisers and 4,600 direct publishers. Criteo has Revenue (Revenue Ex-TAC- Traffic adjusted cost) of $947mn for CY19. Criteo trades at PER of 9.3times on 12M forward earnings basis. Criteo faces growth issues and risk from Google's decision to eliminate cookies.

- **Freakout:** FreakOut is a Japan based marketing technology company that sells marketing platforms and is a DSP and DMP in display and video format advertising. Revenues are about US$200mn (3 year CAGR 54% - partially led by acquisitions) and is loss making at the moment (Mkt Cap at US$150mn).

- **InMobi:** InMobi (backed by Softbank) is a mobile marketing company founded in 2009. InMobi currently acts a DSP and Exchange and has also built a content platform Glance and data company TruFactor. InMobi largely caters to developed markets. InMobi has a current valuation of $1bn (and revenue of INR 3,842mn in FY19 (up 20% YoY). InMobi is a partner with 30,000 apps and has reached 1Bn plus devices. During the current pandemic, InMobi has converted part of salary component (atleast 10%) to stock for its employees.

- **Vertoz:** Vertoz is a self-serve advertising technology platform with 15,000 publishers. Vertoz is active in western markets (North America, Europe). Revenue for FY20 stood at INR 405mn down 12% YoY and EBIT Margin declined from 18.4% to 11.6% YoY. Vertoz trades at 47x FY20 EPS of Rs.3.51.

- **Magnite:** Magnite is World's largest independent sell-side advertising platform that serves as platform for vendors to monetize their inventory. Magnite is formed as an outcome of merger Rubicon Project (Ad Exchange) with Teleria (Connected TV player). It is currently loss making and trades at 6.4times CY19 revenue. It has a market cap of $1Bn.

- **One Signal:** It is strong player in the Push Notification capabilities (Mobile/Web – retention tool), In-App and Email channel. It also offers personalization, testing, analytics and create Rich Media. It has about 5L live apps and works on about 7bn+ daily messages.

- **Youappi:** YouAppi is the first mobile advertising company to bring the full-service solution and insights to advertisers and publishers, by merging brand and performance advertisement together. They engage customers for both User Acquisition as well as Re-engagement.

- **iZooto:** Specialized in highly personalized push notifications to ensure that the publishers/advertisers to retain their audience and maximize their monetisation. iZooto to its credit has reached milestone of 1bn notifications per day in Sep'19.

- **Vserv:** Vserv is the leading authentic data platform for mobile marketing in India. With over 400 million+ authentic user profiles, Vserv empowers marketers / brands to drive sharper people-based marketing across 30+ industry segments.

- **Smaato:** It connects advertisers with app publishers around the world. It helps in creating robust advertising campaign and also help in optimizing client's app's revenues.

- **Mopub**: MoPub provides flexible monetization solutions for mobile publishers around the globe. Publishers and app developers use MoPub's trusted platform to drive maximum revenue for every ad impression and control their user experience, while DSPs and marketers enjoy access to high quality mobile audiences at a large scale. MoPub was acquired by Twitter in 2013.

- **Alteryx:** Alteryx is a self-service data analytics platform with revenue of $418mn (CAGR of 68% over CY17-19) and market cap of US$8.2bn. Alteryx is a data analytics and data science firm with a SaaS model and trades at 313times 12M trailing earnings and 16times trailing sales.

- **Mobvista:** Mobvista is a leading technology platform providing mobile advertising and mobile analytics services to the app developers globally. Mobvista has a revenue of $500mn and trades at 11.3 times 12M forward earnings.

- **Digital Turbine:** Digital Turbine is on device app-discovery company which shows advertisements on mobile devices and connected TVs. It has 400mn+ devices and 40+ partner (leading telecomm players and OEM manufacturers) under its' ecosystem. Digital Turbine has delivered more than 3Bn app recommendations. Digital Turbine has a revenue of $139mn, a Market cap of $2.6Bn and it trades at 50times 12M forward earnings.

- **Cyberagent:** CyberAgent is internet advertising agency and it creates PC and mobile contents (advertisements and games). Cyberagent has a revenue of $4.4Bn and trades at 58x 12M forward earnings with a Market Cap of $7.7Bn.

- **Cardlytics:** Cardlytics is an advertising platform for bank channels that provides transaction-driven marketing solutions. The Company offers software that analyzes and reports customers based on their purchasing history. It has 157mn active users and has delivered 33Bn in sales (to advertisers). Cardlytics has a Revenue of $210mn and trades at 9.8times sales with a market cap of $2Bn.

- **Quinstreet:** QuinStreet is an advertising company that offers performance-based marketing and search engine marketing services. It powers marketplaces that match consumers who use search and research and compare features with brands and targets consumers by vertical. Quinstreet has a revenue of $490mn and trades at 33times 12M forward earnings.

- **TechTarget:** TechTarget is a leading provider of data-driven marketing analytics and sales-enablement solutions. It is a market leader where B2B Tech players use TechTarget purchase intent data to fuel their sales pipelines faster. Techtarget has a revenue of $134mn and at a 12M trailing earnings multiple of 44.1x and 19x CY19 sales.

Exhibit 73: Peer Group Financials Comparison

Name	Sales in $ mn	Sales CAGR (3 year)	EBIT Margin	Gain in OPM (YoY)	PAT ($ mn)	PAT Margin	EPS ($)	Trailing P/E	Forward P/E	Trailing P/S	Market Cap ($ mn)	EV / EBIT
CyberAgent	4,402	8.5	7.1	28	61	1.4	0.5	126.9	58.2	1.8	7,717	23.5
Criteo	2,262	7.8	6.2	(15)	91	4	1.4	12.4	9.3	0.5	1,034	5.1
Trade Desk	661	47.7	17	(551)	108	16.4	2.3	249.5	190.4	35.9	26,602	235.5
Mobvista	500	26.4	5	(116)	22	4.4	1.5	22.2	11.1	1.3	636	3
Quinstreet	490	17.6	1.3	(109)	18	3.7	0.3	47.8	33.9	1.7	856	119.9
Alteryx	418	68.6	9.1	(265)	27	6.5	0.4	313.4	264.5	16	8,295	218.9
Cardlytics	210	22.8	(8.2)	1,892	(17)	(8.1)	(0.7)	NM	NM	9.8	2,063	NA
Freakout	200	54.4	(5.9)	(224)	(32)	(16.2)	(2.1)	NM	NM	0.8	150	NA
Magnite	156	(17.3)	(17.6)	3,338	(25)	(16.3)	(0.5)	NM	NM	6.4	996	NA
Digital Turbine	139	50.5	9.5	620	14	10	0.2	178.5	50.4	19.4	2,693	218.8
TechTarget	134	7.8	17	328	17	12.6	0.6	74.4	44.1	9.2	1,232	36.2
Affle	**47**	**41.3**	**22.3**	**(181)**	**9**	**19.6**	**0.4**	**95.8**	**74.8**	**19.4**	**910**	**89.9**
Vertoz	6	23.3	11.2	(726)	1	10.4	0	47.9	NA	4.8	27	43.5

Source: DART, Company, Affle CAGR is from FY18-FY20, Affle EBIT Improvement is from FY18 to FY20, Mobvista CAGR is from CY17-CY19, Mobvista EBIT Improvement is from CY17 to CY19. Freakout had EBIT impact in CY19 due to impairment, Adjusted Margin is -0.3%. Financial Year-End: TradeDesk, Cirteo, Magnite, Alteryx, Mobvista, Cardlytics and TechTarget are Dec-Ending. Freakout and CyberAgent is Sept-Ending, Quinstreet is June-Ending, Digital Turbine, Vertoz and Affle are March-ending. Note: all estimates are based on latest fiscal year ending CY19, FY20.

Valuation

We believe Affle India has limited set of benchmarks to define the valuation comparison. While all of these companies are in digital advertising business or related space, the business model is different from Affle India. Some act as a DSP or ad exchange or social media platform. Whereas Affle India offers a unique interplay of Digital+Mobility+Analytics theme that can offer multi-year-high-growth opportunity. Its strong operating metrics and high profitability would support its inorganic aspirations driving up growth momentum furthermore. With its right-positioning in the highly-populated but moderately-penetrated market (India-SEA) we believe it can sustain its current growth momentum and thus we model in revenue/EPS CAGR of 25.9%/26.8% over FY20-25E with a Buy rating with DCF based TP of Rs. 3,300 (valued at ~59x FY23E earnings – implies 2.2x on PEG basis).

DCF valuation: Given the early-days in the Ad-Tech industry and high growth potential for the industry/company, we believe DCF valuation as an ideal tool to value real long term potential of the business. We have currently factored in Revenue CAGR of 24% over FY20-27E in its growth stage and gradual deceleration to 14% CAGR over FY27-32E and Terminal growth rate of 5%. Taking these assumptions, we have arrived at TP of Rs3300 per share. If we deploy DCF post the high growth till FY27, our TP would imply terminal growth rate of 6.5% on Reverse DCF basis.

The performance may have more volatility than what we envisage but we do not see much risk on our Profit/Cashflow estimates in long term given Founder's vision, aspirations and Affle's strategic positioning and firmly believe in long term value creation opportunity in the stock, that reinforces our belief in the stock despite apparently rich valuations, which adjusted for growth are inline.

Key assumptions and Estimates

Exhibit 74: Introducing Our Estimates

All fig in Rs. mn	FY20A	FY21E	FY22E	FY23E
INR Revenue	3,338	4,796	5,952	7,276
YoY growth, %	33.8	43.7	24.1	22.2
CPCU rate (Rs. Abs)	41.0	40.4	40.4	40.6
Converted Users (in Mn)	72.3	95.7	119.8	147.8
INR EBIT	746	978	1,294	1,603
EBIT margin, %	22.3	20.4	21.7	22.0
Net profit	655	904	1,159	1,433
Diluted EPS	26.5	35.5	45.5	56.2

Source: DART, Company

Exhibit 75: Key Assumptions to our Estimates

(in Rs mn)	FY20A	FY21E	FY22E	FY23E
Revenue growth (%)	33.8	43.7	24.1	22.2
CPCU rate growth (%)	1.5	(1.4)	0.1	0.3
Converted Users growth (%)	31.5	32.4	25.2	23.4
CPCU Revenue growth (%)	33.6	30.4	25.2	23.8
Non-CPCU Revenue growth (%)	36.0	149.2	19.4	15.5
EBIT margin (%)	22.3	20.4	21.7	22.0
EPS growth (%)	31.6	34.1	28.2	23.6

Source: DART, Company

Band Chart

Exhibit 76: Affle PER Chart – Growth adjusted valuations are inline Mid-tier IT names (implies 2.2x PEG basis).
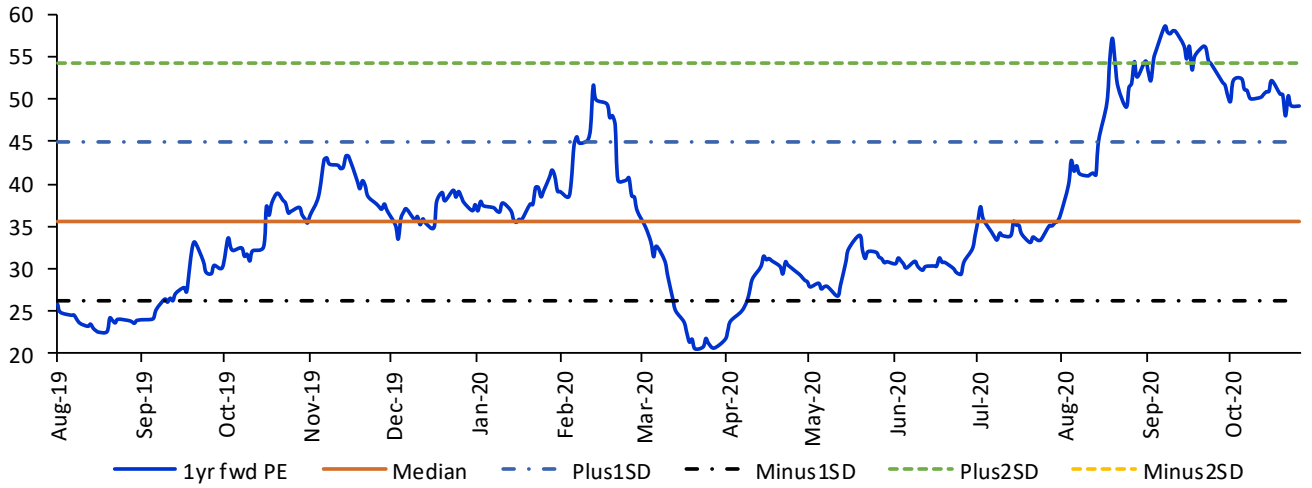
Source: DART, Company

Annexure

Q2FY20 and H1FY20 - Con-Call Takeaways

- **CPCU:** Most of the conversions are deeply linked to deep funnel matrix which are always post click and post install events done by the consumers on their smartphones. Conversions for H1FY20 grew 39.4% YoY at 35.1mn (25.2mn in H1FY19). CPCU Rate increases by 2%-3% at Rs41.3.

- **Visible increase in smartphone usage:** Affle witnessed an increase in the adoption of online payments as well as an increase in average transaction value via the connected devices. The other visible trends were The consumers are spending more time on smart devices and the consumers are increasing the volume of transactions and conversions on smart devices.

- **Advertisers moving to Ad-tech directly:** The advertisers spending more directly than through the agency networks. This has started the trend of advertisers directly moving to Affle.

- **4V strategy:** Affle started a 4V strategy. The 4V strategy is voice, video, vernacular and virtualization as this 4V strategy will power the ability to reach the next billion shoppers on connected devices.

- **Acquisition:** Total contribution from the acquired business assets was approximately 8% or lesser at PAT level on a H1 FY2020 basis. The impact of the acquired businesses on the bottom-line is roughly approximately Rs20mn only and top-line Rs 210mn in H1 FY2020.

- **Geographic Growth:** India is growing much faster (65-68%- CPCU Revenue) than the average industry growth in digital advertising. International business growth is largely from other emerging markets like South East Asia, Middle East and Africa, where growth is around ~25% on a consolidated basis. Aggregate level - 40% growth overall in the CPCU business.

- **On the ground presence:** Affle has presence in India, in South East Asia, and in Dubai which is covering the GCC and Africa region. The focus continues to be on emerging markets and that is where business has the strongest moat.

- **Top Clients:** The customer concentration which is going down is on account of two significant factors that total growth is more than top 10 client growth. Moreover, some top clients are agencies represent a set of clients.

- **Cash Conversion:** The cash conversion ratio on an annual basis is about 70% to 80%. H1FY20 had lower cash conversion due to cyclical effect.

- **Network Effect:** Affle business has virtuous cycle benefits; such as the Advertisers continue to work with it; it would in turn create more conversions in the market, which in turn would boost its ability to understand the behavioral patterns of connected devices on where the transactions are happening. This is the way to get the higher conversions and the efficiencies of the business and driving scale as well as deeper retention for its customers.

- **Connected Devices:** In in the next three years or five years Affle expects the number of smartphone devices connected in India would grow to 800 million or even potentially 1 billion (FY20 at about 60mn). And this base can increase shopper count as well (currently 10mn odd). Large set of customers is coming from the tier 2 and 3 cities vernacular users.

- **Web Browser Cookie Risk:** Possible risks of web browser developers putting restrictions for the use of third-party cookies or tracking technology are limited as Affle is 95% focused on **'Mobile In-app advertising'**.

Q3FY20 Con-Call Takeaways

- **Mobile to Connected Devices:** Affle has expanded the scope of products from just mobile to connected devices as a strategic focus. This implies inclusion of connected TVs.

- **Vizury Engage360:** Affle launched Vizury Engage360, an artificial intelligence driven Omni-channel marketing platform that would focus on Online and Offline journey of consumers for setting up Offline to Online conversions. It has a SaaS based business model with a CPCU based upside model. Affle expects this product will foray them in development geographies.

- **Awards Won:** Received 'Best Use of Technology', 'Best Use of Programmatic' at ET Brand Equity Digiplus awards, 4 awards by exchange4media at Maddies Awards and 2 at Mobile Marketing Association Smarties APAC and Global events.

- **On the ground presence:** Affle does not have an on-ground presence and is working remotely from India (thus lower growth compared to India/SE Asia) and is trying to gain customers across developed world, Affle thinks clearly have to invest more in terms of online sales presence.

- **Geography Presence:** The split between India and international is about 50% - 50% in terms of the topline. Affle believes India will continue to grow significantly and intents to emerge as market leader; in other emerging markets, wants to be in the top few players and be a market leader there and then the third frontier is the Global leadership of the business.

- **Profitability and Cash flow improving:** Cash flow for 9 Months stood at Rs370mn. Employee expense for the quarter increased due to increased Actuarial charge due to change in Interest rate. Marketing cost accounts for about 25-30% of Other expenses as there are in general lower events during festival months. Also, in general IPO has also helped in reduced need for marketing investment.

- **Vizury & RevX:** Affle transformed Vizury into the Omni-channel platform., Affle managed to integrate Revx and Vizury into Bengaluru R&D center very meaningfully and is expecting upgradation happening. Affle has changed the quality of business in Vizury (reduced low margin business) and RevX has also started performing well (focus on profitability and thus consciously exiting low-margin contracts).

- **Organic Growth:** Excluding Vizury, Shoffr and RevX, the growth is 30% YoY in 3QFY20. The growth from inorganic part has been in the early teens.

- **Cookie Changes:** Affle doesn't see much risk from change in Cookie-related change plans by Google Chrome as most advertising for Affle is in-app based. Cookies needs to go but something else will come. Also, the issue is when the business in on desktop – then the dependency on browser policy is very high, while in In-app model the permissions-norms are with several different players (app-developer).

- **10% of ID&C is future Investments:** 10% of cost on the data and inventory cost is going towards more of forward looking investments including location, online to offline and vernacular customers.

- **Acquisition:** Total contribution from the acquired business assets was approximately 8%-9% or lesser at PAT level. The impact of the acquired businesses on the top-line is 12%.

- **On the Ground Presence:** With Vizury Engage360 winning deals in developed geographies from a remote execution perspective. As Engage360 wins those, Affle will start doubling up with on-ground presence to expand the capabilities in those market.

Q4FY20 Con-Call Takeaways

- **Q4 performance:** India business grew 40% YoY (10% on organic basis – acquisition accounted for Rs130mn in revenues). Revenues de-grew 15.6% QoQ due to seasonality factor as well as one-week/half quarter impact of COVID in India/Intl markets. Affle had expected Rs 10Mn / day revenue run-rate for Q4 had COVID not impacted and expect to reach this run-rate by June second half.

- **Affle 2.0:** Affle 2.0 is the new strategic initiative based on four pillars which are 1) Dominate and Consolidate India and South East Asia market and invest more in vernacular and vertical areas in these markets. 2) Invest in Omni-Channel Platform – Connected Devices, Connected Households, TV and Voice. 3) Vertical Alignment: focus on growth industry verticals and geography wise growth – Category E, F, G, H (These 10 verticals accounts 76% of revenues). 4) Focus on work from home and collaborating on WFH mode.

- **International Business:** International Business grew 26.5% YoY but de-grew ~15% on organic basis especially in the Travel/Hospitality vertical (Inorganic Rs. 130mn). Affle is not concerned about International business as it has built a diversified customer base and strong product portfolio. Margins for International Business have been lower than company margins as Affle is building on the ground presence in some markets (PAT in Int. biz declined 17% on YoY basis).

- **1Q Outlook:** Expects impact in 1Q largely in 24% of Revenue segments and some witnessed impact in E-Comm due to lockdown (to revive in June). Extent of the impact is largely dependent on the potential recovery which it may witness in June. Total Revenues are expected to decline by 10%-15%.

- **Cost Control:** Affle has already freeze hiring and curbed travel expenses. In Q4 impact of reduced bonuses, gratuity and leave encashment were partially offset by employee cost of acquired business. In Q3 there was some higher provisioning for employee incentives. Note: Mediasmart has some part of people cost in other expenses in form of consultants/professional charges.

- **R&D Capitalization:** Capitalized Intangible investment for products (Revx, Vizury in current year) will largely continue at same pace with investments of about Rs. 300Mn to Rs350mn pa run rate (includes Intangible as well as WIP).

- **Data Acquisition:** ID&C remained elevated on per Converted user basis (28.2 per Converted User in Q4 / 26.1 for Q1-Q3) on account of strategic investments to acquire more data points (listening to 3x more data across new markets, connected devices). Due to increased screen time, supply of inventory has increased leading to lower inventory cost (down 15-25% in some cases). This is largely utilized to gain more data insights and Lower costs has not been passed on to customers as discounts once offered are difficult to revive back do more conversions in same conversion cost (Focus on maintaining 25% EBIDTA margins).

- **Debt taken from Affle Holding:** The increase in debt to Rs. 638Mn (Rs 90Mn in FY19 and Rs. 337Mn in 1HFY20) is largely taken from Affle Holdings by Affle International for business acquisition purpose (Mediasmart acquired for Euro 5.1mn integrated for the full quarter) at a nominal interest of rate (undisclosed).

- **VC Funded Startup impact:** Affle highlighted that there have been cases in 5-6 years where funding slowdown for certain startups have impacted their advertising spends (recent Softbank). However, Affle has taken this into account and focusing on the cash flow from these clients rather than scaling up to full budget straightaway assessing credit risk closely.

- **Acquisition Strategy:** Affle's strategy has largely been focusing on acquiring turn-around situation businesses with complementary products, markets, geographies and funding them with internal cash flows. Current Contribution of all acquired business is ~3% of PAT and ~10% of Revenue. These acquisitions have been strategic in nature giving access to right market, products and customers.

- **Ad inventory partners:** Affle in agnostic on the publisher side as it centers its strategy around the client. The company work with all 36 popular Ad exchanges, Social Media platform such as FB, Google platform assets (15%), long tail of programmatic based Apps and even Handset OEMs.

Q1FY21 Con-Call Takeaways

- **Stronger than expected Q1:** Affle highlighted that the toughest COVID impact quarter is over. The Affle 2.0 focus helped Affle become stronger from the crisis. The April and May month were different and weaker while June month witnessed a bounce back where organic CPCU business reach to the run-rate of INR 10mn per day and achieved quarter run-rate of Rs 1080mn by June-End (led by increased scree time and end of restrictions). Momentum in July is similar to June. Current quarter had 4% de-growth on organic basis, Organic conversions stood at 15mn (down about 10%).

- **Transfer pricing:** Some cost shifts have happened between India entity as well as overseas subsidiaries led by differentiated growth contribution (transfer pricing changes are made at beginning of fiscal on shared cost basis as a result India (Standalone) Other Expenses have grew by 30% QoQ due to Intercompany Transfer Pricing adjustment). There is some shift in revenues from International to India entities as earlier some business was contracted for all markets in single contract signed in International markets but now they are contracted directly.

- **Acquisition:** Appnext and Mediasmart accounted for 5-6% of PAT in Q1FY21 and aims to achieve 8-10% of PAT in FY21. Mediasmart Revenue stood at INR 100mn (90% of revenue is Non-CPCU), Appnext at INR 70mn (2mn converted users) and RevX at INR 15mn (higher than base quarter).

- **Employee Expenses:** Cost increased by 29.6% QoQ largely led due to acquisition and full year provisioning of bonuses for employees. The total employee is 375 and added few leaders (Sujoy Golan – SaaS and Omni Channel –CMO, Martje Abeldt – CRO RevX) and members in for SaaS products, product management and Data Science Team. It is also emerging as preferred choice of company for workforce in the Adtech and Marketing Tech space.

- **New Loan:** Affle has undertaken a new 4-year term loan of $10mn at LIBOR + 3.25%. This is largely related to the partial funding for Appnext acquisition ($6mn already withdrawn).

- **Capitalization/Cash:** $1.2mn tangibles were capitalized during the quarter (expect $1-$1.25mn per quarter run-rate). OCF stood at $3.5mn. Cash at $11mn.

- **Revenues segments:** Affle expects PaaS to contribute 10% to total Revenue in FY21. EFGH segments contributed 90% of revenues in Q1 from 76% in Q4.

- **Geographic View:** Affle is witnessing good traction in South East Region. Select Europe markets are also strong given the Mediasmart acquisition. North America expansion is slower and careful as there is no on the ground presence and expand executed is remotely. Affle has also got one resource person for Korean Market.

- **Competitors:** Affle highlighted that there are new players who are facing issues due to weak profitability and losing clients. Affle is taking such opportunity to win clients and attract resources.
- **Tax Rate:** Affle expects Tax Rate to be in early double digits. In Q1FY21, Tax rate was lower due to transfer pricing adjustment in India.

COVID Impact Con-Call

Affle has highlighted impact across 3 factors in Customers, Consumers, Competitors

1. **Advertisers:** Affle believes impact was severe only in e-commerce vertical, due to lockdown restriction. Growth in other focus segment can recover quickly as digital ad spends are non-discretionary in nature.

   DART View: While large part of customer acquisition spending from startups can slow down due to funding issues in current environment across the startup space, there are no visible signs of the same.

2. **Competition:** Affle expects advertisers' demand for ROI driven CPCU up as compared to pure CPC/CPM models. Thus, making it difficult for other advertisers to deliver conversions. Market Share gain during this period is possible as financially weak player will likely lose out some bit of market share.

   DART View: Competitors that are delivering lower advertising ROI for clients and also Ad-tech peers who are on pre-profit phase may lose market share.

3. **Consumers:** Affle believes mobile usage time has increased due to lockdown. This has led to high ad inventory availability and lower cost for Affle due to scale.

   DART View: On a longer term, we believe some increased screen time is likely to stay. Share of digital consumption will improve further and in turn would increase the total addressable market for Affle (Online-shoppers).

Other Implications

- Initial surge in Data usage was 30% then OTT platforms lowered the video quality and surge reduce to 10%. Tier 2 and Tier 3 have higher increase in data usage due to return of workers to home town and general increase in usage.

- Travel, Transport, Hospitality is negatively impacted (~10% of Revenue in FY20).

- E-Commerce has been affected in India due to stricter lockdown restrictions but Affle expects V-shape recovery when restrictions are eased as spends will return quickly. eCommerce is over 30% e-commerce for the company but India is the only one market that is impacted much (Developed market impact was due to surplus demand which clients could not fulfil and thus cut down on ad-spends). Few customers were quickly coming back and did targeted campaigns for select zones. As Affle's technology has deep location fencing capabilities.

- Affle has not undertaken pay cuts or changes to pre-agreed bonus but has sent intent for 120% productivity across employees and postponed increments.

- Affle expects to save cost in travel and transport cost and marketing spends (lot of conferences, marketing, global events) and rental leases negotiations.
- Affle started transitioning to work from home across our India offices around February 14, 2020.
- With COVID-19, people have not only increased the screen-time usage but also been more comfortable transacting using their mobile phones.

Key Accounting Policies

- **Hedging:** Affle doesn't hedge forex currency / transactions.

- **Depreciation:** Affle depreciates using WDV method with residual value at 5% of original cost to group. **Useful Lives:** Computers: 3 Years, Office equipment: 5 Years, Furniture and Fixtures: 10 Years and Motor Vehicles: 8 Years.

- **Amortization:** Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Internally generated intangible assets, (excluding capitalized development costs), are not capitalized and rather expensed through the P&L. **Useful Lives:** Computer Software: 5 years, **Software Development Application: 4 years**, Non-Compete Fees: 4 years, Trademark: 5 years.

- **Impairment:** Goodwill is tested for impairment annually. Intangible assets with indefinite useful lives are tested for impairment annually.

- **Research and Development Cost:** Research costs are expensed as incurred. Development expenditure incurred on an individual project is recognized as an intangible asset.

- **Revenue – Consumer Platform:** Revenue is recognized as and when advertisements are delivered on Net of taxes basis. Affle collects taxes on behalf of Government but that is not included in reported revenue.

- **Revenue – Enterprise Platform:** There are two type of contract: T&M and FP. T&M is recognized when service is performed and FP is recognized on completion stage method approach.

- **Forex:** The assets and liabilities of foreign operations are translated into INR at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange difference is recognized in OCI.

- **Employee Benefit Plan:** Re-measurements comprising of actuarial gains and losses, are recognized immediately in the balance sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to the statement of profit and loss in subsequent periods.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**3,338**	**4,796**	**5,952**	**7,276**
Total Expense	**2,459**	**3,614**	**4,406**	**5,304**
COGS	1,921	2,830	3,487	4,269
Employees Cost	273	413	486	555
Other expenses	265	371	433	480
EBIDTA	**879**	**1,181**	**1,546**	**1,972**
Depreciation	133	203	252	369
EBIT	**746**	**978**	**1,294**	**1,603**
Interest	14	22	25	21
Other Income	61	108	136	166
Exc. / E.O. items	0	0	0	0
EBT	**792**	**1,064**	**1,405**	**1,748**
Tax	137	160	246	315
RPAT	655	904	1,159	1,433
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**655**	**904**	**1,159**	**1,433**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	255	255	255	255
Minority Interest	0	0	0	0
Reserves & Surplus	2,037	2,943	4,102	5,535
Net Worth	**2,292**	**3,198**	**4,357**	**5,790**
Total Debt	638	1,288	1,088	888
Net Deferred Tax Liability	2	2	2	2
Total Capital Employed	**2,931**	**4,488**	**5,447**	**6,680**
Applications of Funds				
Net Block	**1,676**	**3,553**	**3,695**	**4,390**
CWIP	0	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	**2,324**	**2,362**	**3,433**	**4,292**
Inventories	0	0	0	0
Receivables	943	1,327	1,631	1,993
Cash and Bank Balances	696	219	963	1,431
Loans and Advances	47	47	47	47
Other Current Assets	69	99	123	151
Less: Current Liabilities & Provisions	**1,069**	**1,427**	**1,681**	**2,002**
Payables	758	1,081	1,282	1,543
Other Current Liabilities	311	346	400	459
sub total				
Net Current Assets	1,255	935	1,752	2,290
Total Assets	**2,931**	**4,488**	**5,447**	**6,680**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.4	41.0	41.4	41.3
EBIDTA Margin	26.3	24.6	26.0	27.1
EBIT Margin	22.3	20.4	21.7	22.0
Tax rate	17.3	15.0	17.5	18.0
Net Profit Margin	19.6	18.9	19.5	19.7
(B) As Percentage of Net Sales (%)				
COGS	57.6	59.0	58.6	58.7
Employee	8.2	8.6	8.2	7.6
Other	7.9	7.7	7.3	6.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.4	0.2	0.2
Interest Coverage	52.4	43.6	51.8	74.8
Inventory days	0	0	0	0
Debtors days	103	101	100	100
Average Cost of Debt	3.9	2.3	2.1	2.2
Payable days	83	82	79	77
Working Capital days	137	71	107	115
FA T/O	2.0	1.3	1.6	1.7
(D) Measures of Investment				
AEPS (Rs)	25.7	35.5	45.5	56.2
CEPS (Rs)	30.9	43.4	55.3	70.7
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	89.9	125.4	170.9	227.1
RoANW (%)	43.5	32.9	30.7	28.2
RoACE (%)	35.7	25.0	23.8	24.0
RoAIC (%)	52.4	30.1	29.6	32.9
(E) Valuation Ratios				
CMP (Rs)	2654	2654	2654	2654
P/E	103.3	74.9	58.4	47.2
Mcap (Rs Mn)	67,674	67,674	67,674	67,674
MCap/ Sales	20.3	14.1	11.4	9.3
EV	67,047	68,073	67,129	66,462
EV/Sales	20.1	14.2	11.3	9.1
EV/EBITDA	76.3	57.6	43.4	33.7
P/BV	29.5	21.2	15.5	11.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	33.8	43.7	24.1	22.2
EBITDA	25.0	34.4	30.9	27.6
EBIT	23.8	31.2	32.3	23.9
PBT	32.5	34.3	32.1	24.3
APAT	34.2	38.0	28.2	23.6
EPS	27.8	38.0	28.2	23.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	730	1,076	1,362	1,754
CFI	(1,637)	(2,181)	(394)	(1,065)
CFF	1,397	628	(225)	(221)
FCFF	(468)	(1,004)	969	689
Opening Cash	206	696	219	963
Closing Cash	696	219	963	1,431

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**

Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	**Designation**	**E-mail**	**Direct Lines**
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Our Research reports are also available on Reuters, Thomson Publishers, DowJones and Bloomberg (DCML <GO>)