

**MOKO Social Media (MOKO - \$3.66 - Buy)**

**Price Target Change**  
**Estimate Change**

**COMPANY NOTE**

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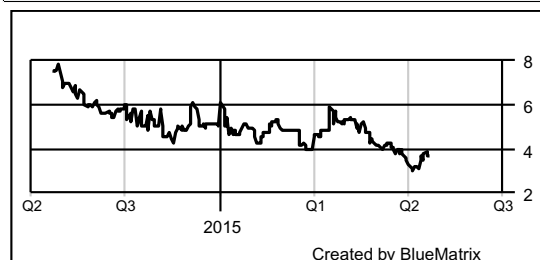
**Sales and trading** 7 a.m. to 7 p.m. ET, (646) 465-9090  
**Sales and trading** 7 p.m. to 7 a.m. ET, (646) 465-9063

Stock Data	07/23/15
Price	\$3.66
52 Week Range	(\$2.80 - \$8.17)
Price Target	\$8.00
Prev Price Target	\$10.00
Market Cap (mil)	\$54.83
Shares out (mil)	14.98
3-Mo Avg Vol	11,360
Cash per share	\$0.67
Total Debt (mil)	\$0.00

EPS (\$)						
Yr Jun	2014A		2015E		2016E	
	Actual	Curr	Prev	Curr	Prev	
H1	(0.38)	(0.50)	(0.20)	-	-	
H2	(0.61)	(0.48)	(0.06)	-	-	
YEAR	(1.01)	(0.98)	(0.26)	(0.84)	0.36	
P/E	(3.6)x	(3.7)x	-	(4.4)x	-	

Revenues (\$ millions)						
Yr Jun	2014A		2015E		2016E	
	Actual	Curr	Prev	Curr	Prev	
H1	3.7	3.9A	5.2A	-	-	
H2	4.5	4.0	9.4	-	-	
YEAR	8.2	7.9	14.6	9.0	24.6	

**One year price history MOKO**



**2H:15 and FY:16 Update**

**As MOKO enters FY:16, in this report, we share some of the key milestones the company has achieved in the past six months and a look ahead toward what to expect from the company in FY:16.** With significant efforts spent in the past six months aimed at taking REC\*IT, Blue Nation Review, Run Haven and Tagroom to the next level, the company appears well positioned for FY:16.

- 1. Early test results from launch of REC\*IT at 200 campuses have been encouraging** with ~75% of the ~250K monthly unique visitors (MUV) returning to the use the app every 24 hours and spending ~5 minutes per session. The company plans to expand the launch to 950 campuses starting in Aug 2015 along with the launch of REC\*IT 2.0 and Speakiesy, a campus specific social network. We believe key partnerships with IMLeagues, ACISF, Fusion Innosoft, and BigTeams could make REC\*IT as the "go-to" mobile app for college and high school students.
- 2. Blue Nation Review (BNR) has become a popular app as the presidential race gathers momentum.** The app has over 3.5 million MUVs and over 550K installs. Likewise, Run Haven, aimed at the running community has gained 1.2m MUVs and Tagroom enjoys 3m MUVs.
- 3. We believe as MUVs begins to grow and registered user base increases,** advertising companies will begin to launch campaigns aimed at reaching these users. Thus far, MOKO has inked agreements with Draft Kings, Lyft, Target, New York Post among others but we believe clothing manufacturers and shoe companies are likely to become the next set of customers.
- 4. In the meantime,** the company has put in the effort and resources to make for better user experiences and grow its user base to numbers that are justifiable for these large organizations and media partners to begin working with MOKO. As such, the company has filed a \$40 million shelf that it hopes to tap into as its working capital requirements grow. We note the company raised \$6.8 million from the exercise of options last month.
- 5. Given the change in its strategy to provide the app to users without any ads near term,** we believe the MOKO's revenues could be subdued in 1H:2016. Depending on the success it is able to achieve this fall with the upcoming launches, we anticipate MOKO could witness revenue growth starting in 2H:16.

**Maintain Buy.** While we are disappointed in the delay in the growth in its revenues from the apps it has developed and launched, we believe with ad rates trending lower and competitive alternatives already out in the market, MOKO has to continue to invest and execute in order to gain traction with its users and attract large media partners. We are lowering our estimates for 2H:15 and FY:16 and running our DCF model with revised estimates, our price target goes to \$8.00.

**Risks to achievement of target price:**

**Lack of Long-Term Commitment from Advertisers:** MOKO is expected to generate almost all of its revenue from third parties advertising on its platforms. Advertisers generally shy away from long-term commitments. If the company fails to effectively use the platforms to deliver ads, advertisers will not do the business or pay the expected rates, which could harm the company's business prospects and earnings estimates.

**Competition:** MOKO operates in an extremely competitive space, which is characterized by rapidly and continuously evolving customer requirements and declining average selling prices. There is no direct competitor to the company, but it faces indirect competition from giant social networking platforms such as Facebook, Twitter and LinkedIn. Many of these competitors are better capitalized than MOKO, which could give them a competitive advantage. If the company fails to compete successfully, its market share and net revenue could decline.

**Customer Concentration:** MOKO will generate advertising revenue, mainly from REC\*IT platforms. REC\*IT is highly dependent on two customers: IML and ASIG, which operates American Collegiate Intramural Sports. Hence, MOKO needs to develop its new customers and advertising partners to continuously grow the business.

**Infringement of Intellectual Property Rights:** Companies operating in the Internet, technology and media industries typically face litigation based on allegations of infringement of intellectual property (IP) rights. Going forward, with the product launch, MOKO might face IP claims if any of its products is found to infringe on the intellectual property rights of a competitive product. This may result in the company facing costly litigation, diversion of technical and management personnel, and product shipment delays, even if the allegations of infringement are unwarranted. Any successful claim could adversely affect MOKO's business.

**Demand Forecasting and Delay in Product Launch:** MOKO has limited visibility of its customer's future demand or their market acceptance. The company may end up with a smaller user base, which could have a materially adverse impact on its performance. In case of delay in product launch, opportunity of which is taken up by competitor may lead to loss in user base finally adversely impacting revenue growth.

**Company description:**

MOKO Social Media (MOKO), formerly MOKO.mobi Limited, is an Australia-based integrated global social media company. It develops, manages, and commercializes online mobile social communities and mobile content sales for large organized groups that need to share content and interact efficiently with their members. The company is leveraging the proprietary network architecture with a range of capabilities, including Customer Relationship Management (CRM), Data Mining, Moderation (censorship), Billing, Advertising Placement, Performance Monitoring, and Content Management. The company monetizes these platforms with premium and targeted mobile advertising. These platforms support intended global growth across four main business lines: 1) Mobile Advertising, 2) Mobile Social, 3) Mobile Content, and 4) Mobile Commerce.

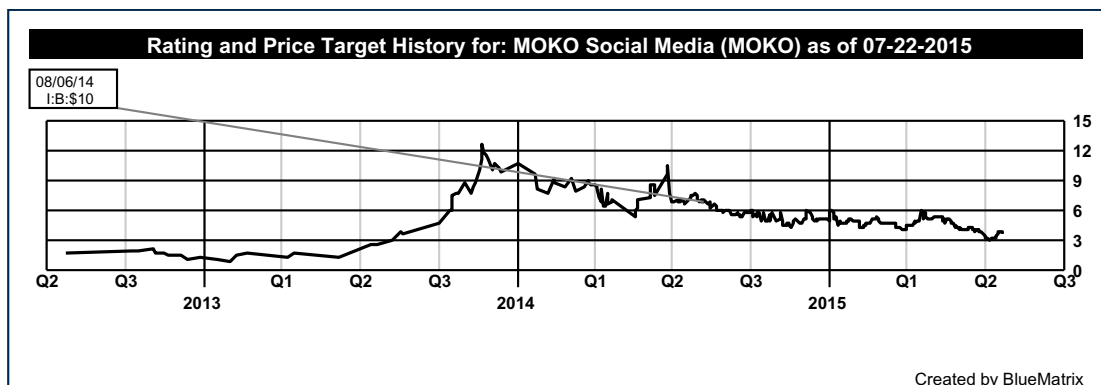
MOKO Social Media Ltd. in thousands of dollars except per share values								
	2013	Dec-13 H1:14	Jun-14 H2:14	2014	Dec-14 H1:15	Jun-15 H2:15E	2015E	2016E
<b>Revenue</b>	\$ 5,375.8	\$ 3,720.1	\$ 4,507.9	\$ 8,228.0	\$ 3,909.0	\$ 4,000.0	\$ 7,909.0	\$ 9,000.0
% Change y-o-y				53.1%	5.1%	-11.3%	-3.9%	13.8%
Cost of Providing Services	\$ (3,866.4)	\$ (3,101.1)	\$ (3,434.9)	\$ (6,536.0)	\$ (3,697.9)	\$ (3,500.0)	\$ (7,197.9)	\$ (7,500.0)
% of revenues	71.9%	83.4%	76.2%	79.4%	40.0%	35.0%	91.0%	30.0%
<b>Gross Profit</b>	\$ 1,509.4	\$ 619.1	\$ 1,072.9	\$ 1,692.0	\$ 211.1	\$ 500.0	\$ 711.1	\$ 1,500.0
Gross Margin	28.1%	16.6%	23.8%	20.6%	5.4%	12.5%	9.0%	16.7%
<b>Operating Expenses:</b>								
Sales & marketing	\$ (3,203.5)	\$ (4,729.3)	\$ (6,852.7)	\$ (11,582.0)	\$ (2,675.7)	\$ (2,500.0)	\$ (5,175.7)	\$ (5,000.0)
% of revenue	59.6%	127.1%	152.0%	140.8%	68.4%	62.5%	65.4%	55.6%
General & Administrative	\$ (2,757.6)	\$ (1,736.2)	\$ (2,659.8)	\$ (4,396.0)	\$ (6,375.8)	\$ (5,500.0)	\$ (11,875.8)	\$ (8,000.0)
% of revenue	51.3%	46.7%	59.0%	53.4%	163.1%	137.5%	150.2%	88.9%
Depreciation & Amortization	\$ (953.2)	\$ (392.3)	\$ (740.7)	\$ (1,133.0)	\$ (461.4)	\$ (400.0)	\$ (861.4)	\$ (700.0)
% of revenue	17.7%	10.5%	16.4%	13.8%	11.8%	10.0%	10.9%	0.0%
Impairment of patents & trademarks	\$ (1,327.9)	\$ -	\$ -	\$ -	\$ (560.9)	\$ (200.0)	\$ (760.9)	\$ (500.0)
% of revenue	24.7%	0.0%	0.0%	0.0%	14.3%	14.3%	0.0%	0.0%
<b>Total Operating Expenses</b>	\$ (8,242.2)	\$ (6,857.8)	\$ (10,253.2)	\$ (17,111.0)	\$ (10,073.8)	\$ (8,600.0)	\$ (18,673.8)	\$ (14,200.0)
% of revenue	153.3%	184.3%	227.5%	208.0%	257.7%	215.0%	236.1%	157.8%
<b>Operating Income/(Loss)</b>	\$ (6,732.8)	\$ (6,238.8)	\$ (9,180.2)	\$ (15,419.0)	\$ (9,862.7)	\$ (8,100.0)	\$ (17,962.7)	\$ (12,700.0)
Operating Margin	-125.2%	-167.7%	-203.6%	-187.4%	-252.3%	-202.5%	-227.1%	-141.1%
Fair value gain on deferred consideration	\$ 1,633.7	\$ 342.8	\$ 43.2	\$ 386.0	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 7.9	\$ 257.2	\$ 125.8	\$ 383.0	\$ 130.6	\$ -	\$ 130.6	\$ -
<b>Net Income Before Taxes</b>	\$ (5,091.2)	\$ (5,638.7)	\$ (9,011.3)	\$ (14,650.0)	\$ (9,732.2)	\$ (8,100.0)	\$ (17,832.2)	\$ (12,700.0)
Income Tax	\$ 884.5	\$ 967.0	\$ 86.0	\$ 1,053.0	\$ 947.8	\$ 788.9	\$ 1,736.7	\$ (1,270.0)
Tax rate (%)	17.4%	17.1%	1.0%	7.2%	9.7%	9.7%	9.7%	10.0%
<b>Net Income</b>	\$ (4,206.7)	\$ (4,671.8)	\$ (8,925.2)	\$ (13,597.0)	\$ (8,784.3)	\$ (7,311.1)	\$ (16,095.4)	\$ (13,970.0)
Profit (Loss) after income tax expenses from Discontinued Opera	\$ (1,399.0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Exchange differences on translation of foreign operations	\$ 762.2	\$ (28.8)	\$ (215.2)	\$ (244.0)	\$ 1,164.3	\$ -	\$ 1,164.3	\$ 1,164.3
Stock-based compensation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-controlling interests	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Income (Non-GAAP)</b>	\$ (4,843.5)	\$ (4,700.6)	\$ (9,140.4)	\$ (13,841.0)	\$ (7,620.0)	\$ (7,311.1)	\$ (14,931.2)	\$ (12,805.7)
<b>Net Income (GAAP)</b>	\$ (4,843.5)	\$ (4,700.6)	\$ (9,140.4)	\$ (13,841.0)	\$ (7,620.0)	\$ (7,311.1)	\$ (14,931.2)	\$ (12,805.7)
Net Margin	-90.1%	-126.4%	-202.8%	-168.2%	-194.9%	-182.8%	-188.8%	-142.3%
<b>Non-GAAP EPS (cents)</b>	\$ (63.13)	\$ (38.31)	\$ (61.00)	\$ (101.57)	\$ (50.47)	\$ (48.43)	\$ (98.90)	\$ (84.82)
<b>GAAP EPS (cents)</b>	\$ (63.13)	\$ (38.31)	\$ (61.00)	\$ (101.57)	\$ (50.47)	\$ (48.43)	\$ (98.90)	\$ (84.82)
Shares (thousands)	7,672.1	12,269.0	14,984.0	13,626.5	15,097.5	15,097.5	15,097.5	15,097.5
Source: Company reports and Chardan Capital estimates.								
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<b>MOKO Social Media Ltd.</b>				
<b>in thousands of dollars except per share values</b>				
	<b>2013</b>	<b>Dec-13 H1:14</b>	<b>Jun-14 H2:14</b>	<b>Dec-14 1H:15</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	2,249.38	4,350.99	9,878.00	10,050.48
Short-term investments in marketable securities	0.00	0.00	0.00	0.00
Accounts receivable, net	735.66	434.39	784.87	777.38
Other current assets	136.82	194.21	441.70	1,489.34
<b>Total Current Assets</b>	<b>3,121.86</b>	<b>4,979.59</b>	<b>11,104.57</b>	<b>12,317.20</b>
Property, Plant and Equipment, Net	64.88	40.63	87.73	207.09
Intangibles, Net	3,937.91	4,122.98	4,041.17	4,132.49
<b>Total Assets</b>	<b>7,124.65</b>	<b>9,143.19</b>	<b>15,233.46</b>	<b>16,656.78</b>
<b><u>LIABILITIES</u></b>				
Deferred Consideration	1,277.07	0.00	0.00	0.00
Trades payable	1,620.21	1,634.51	2,563.61	2,161.98
Borrowings	1,014.68	94.38	0.00	0.00
Employee benefits	119.69	178.26	276.92	307.09
Provisions	236.54	0.00	0.00	0.00
Income tax provision	249.84	256.33	740.88	249.53
<b>Total Current Liabilities</b>	<b>4,518.03</b>	<b>2,163.48</b>	<b>3,581.41</b>	<b>2,718.60</b>
Deferred consideration	0.00	0.00	0.00	0.00
Employee Benefits	40.99	53.55	35.35	42.15
Deferred tax liability	0.00	0.00	0.00	0.00
<b>Total Liabilities</b>	<b>4,559.02</b>	<b>2,217.03</b>	<b>3,616.76</b>	<b>2,760.76</b>
Issued capital	22,015.77	27,930.43	41,679.66	50,542.95
Accumulated Losses	(22,730.83)	(27,315.19)	(38,929.67)	(47,601.62)
Reserves	3,280.70	6,398.34	8,990.80	11,191.34
Non-controlling Interest	0.00	(87.41)	(124.09)	(236.65)
<b>Shareholders Equity</b>	<b>2,565.63</b>	<b>6,926.16</b>	<b>11,616.70</b>	<b>13,896.02</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<b>7,124.65</b>	<b>9,143.19</b>	<b>15,233.46</b>	<b>16,656.78</b>
Current Ratio	0.7x	2.3x	3.1x	4.5x
Quick Ratio	0.7x	2.2x	3.0x	4.0x
Working Capital	(\$1,396.2)	\$2,816.1	\$7,523.2	\$9,598.6
DSO	49	21	31	17
Book Value per share (Dil)	\$0.33	\$0.56	\$0.78	\$1.02
Cash per share (Dil)	\$0.29	\$0.35	\$0.66	\$0.74

Source: Company reports and Chardan Capital estimates.

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
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BUY [BUY]	39	72.22	14	35.90
HOLD [NEUTRAL]	12	22.22	2	16.67
SELL [SELL]	2	3.70	0	0.00
NOT RATED [NR]	1	1.85	0	0.00

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**Neutral:** Returns expected to be in line with sector average over 12 months and indicates total return between negative 10% and 10% over the next 12 months.

**Sell:** Returns expected to be materially below sector average over 12 months and indicates total price decline of at least 10% over the next 12 months.

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