



# Bemobi (BMOB3): Mind the valuation gap and let's play it

Initiate at BUY

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## Bemobi: Investment Thesis

We launch coverage of Bemobi shares (BMOB3) with a Buy rating and a YE21 target price of R\$30.0/sh, yielding 47% upside to the last closing price. We believe that Bemobi is well positioned in the large fast-growing mobile services in Emerging Markets. Our investment thesis is based on (i) their unique B2B2C business model for distributing digital solutions, ranging from games and apps, microfinance to communication; (ii) scalable business with a strong growth profile; (iii) additional growth opportunities through M&A and (iv) appealing valuation with additional optionality's that could lead company to a strong re-rating.

Bemobi has reached a strong position amid an expanding market for mobile digital services in emerging countries via partnerships with 72 mobile carriers in 38 countries. The company has enabled access to a comprehensive and innovative portfolio of products and services for millions of users who were previously unassisted; together with their proprietary AI-powered platform for digital distribution ("Loop") to increase their penetration and client monetization. Going forward, we believe that such positioning will allow Bemobi to keep growing its relevance in those markets.

The business consists in an asset light model with both low capital expenditure and working capital investments, combined with a consistent growth (17-19 Sales CAGR of 15%). That said, Bemobi has a solid M&A pipeline that could significantly accelerate its growth through assets that offer synergies with its distribution and collection models.

After its IPO, the company has a strong cash position of ~ R\$ 760mn, which should be mostly destined to fund its acquisition plans. Bemobi has five NDAs signed (two of them with non-binding offer). According to management, if these two advanced deals are completed, the contribution could double Bemobi's current revenue.

Currently trading at 4.1x 2021 EV/Sales and 10.8x EV/EBITDA, we see Bemobi with an appealing valuation vs. peers and overall Brazilian tech companies with a clear path to grow organically and with M&A optionality's to further increase its top line growth. Overall, we forecast a 3-year CAGR of 10.4% in revenue, 14.1% in EBITDA and 41.7% in net income. We ran some sensitivity analysis incorporating M&A scenarios and, in our bull case, we believe that the company can bring an additional upside of 20%.

Our R\$30.0 YE21 TP derives from DCF-based. We value Bemobi based on DCF valuation approach, which includes: (i) 5.0% LT growth rate and (ii) 11.5% WACC. Implying 2021e multiples of 7.5x EV/Sales and 19.6x EV/EBITDA (vs. 4.1x V/Sales and 10.8x EV/EBITDA at current levels).

### Bemobi (BMOB3)

<b>Rating</b>	<b>BUY</b>
<b>YE21 Target Price (R\$)</b>	<b>30,0</b>
<i>Current Price (R\$)</i>	20,4
<i>Upside / Downside</i>	47,3%

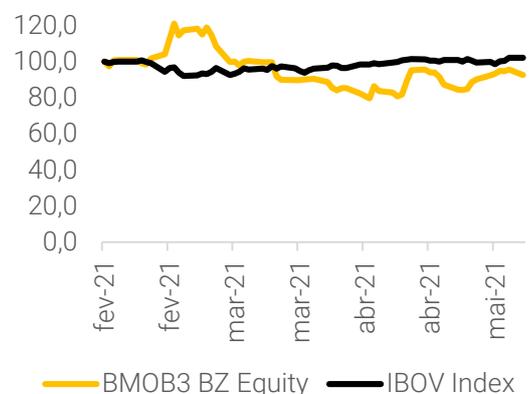
<b>Trading metrics</b>	
<b>Market cap (R\$m)</b>	<b>1.851</b>
<b>n. of shares (mn)</b>	<b>91</b>
Free Float	64,0%
Net debt (cash) / EBITDA 2021e	-6,4x

<b>Multiples</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
EV/Sales	4,1	3,7	3,4
EV/EBITDA	10,8	9,2	7,9
P/E	36,2	20,5	17,6
PEG	0,9	0,3	1,1

<b>Key Financials</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Net Sales	263	292	324
EBITDA	101	119	139
Net income	51	90	105

<b>Margins (%)</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Gross Profit	66,7%	66,7%	66,7%
EBITDA	38,2%	40,7%	42,7%
Net Income	19,4%	31,0%	32,4%

### IBOV vs. BMOB3



## Bemobi: Investment Thesis

**Risks:** (i) Competition in the mobile game app, mainly from the free games as most of its clients in emerging market are concentrated on low income population; (ii) Internalization of the service: mobile carriers can choose to internalize the digital channel service offered by Loop; (iii) Strong concentration of revenue on 3 operators (TIM, Claro and Vivo), which in 2020 were responsible for 56% of consolidated revenue (vs. 63% in 2019); (iv) M&A execution: few track record; (v) Positioning Risk.

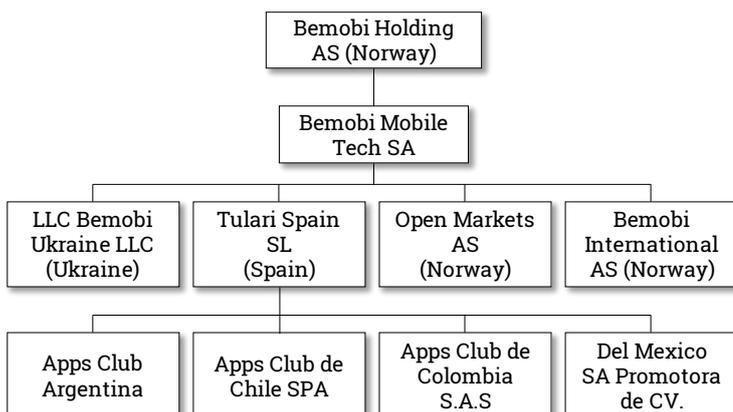
## Bemobi's IPO

On February 8th, Bemobi has priced its IPO, raising ~R\$1,141mn pre-tax (95.9% primary and 4.1% secondary via Green Shoe) through the issuance of ~51,8mn shares at a R\$22.0 offer price. The BMOB3 shares are listed in the Novo Mercado (the segment of B3 with the highest level of corporate governance).

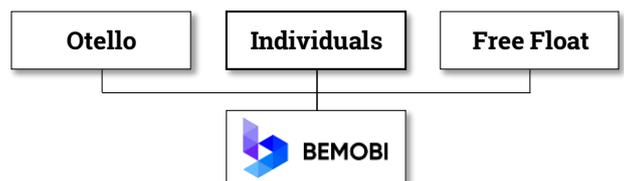
The proceeds raised from the primary offering will be primarily allocated to: (i) funding further M&A opportunities; (ii) dividend payment & subsidiary acquisition and (iii) R&D and general corporate purposes.

	mn shares	R\$m
<b>Base Primary Offering</b>	<b>49,7</b>	<b>1.094</b>
<i>Greenshoe</i>	2,1	47
<b>Total Secondary Offering</b>	<b>2,1</b>	<b>47</b>
<b>Total Offering</b>	<b>51,9</b>	<b>1.141</b>
<b>IPO Price (R\$)</b>		<b>22,0</b>
<i>Current price (R\$)</i>		20,4
<i>% performance since IPO</i>		-7,5%

### Before IPO



### After IPO

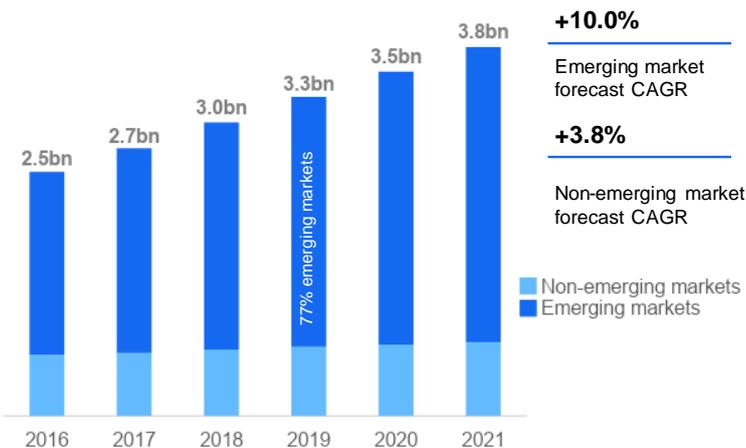


## Sector Overview

### The global market for mobile digital services in emerging markets and the “Monetization Gap”

Smartphone usage in emerging markets is significant and it is growing in a higher pace compared with the developed countries (CAGR +10,0% vs. 3.8%). Despite the growth in smartphones in emerging markets, most mobile services have the typical "affluent user" from developing economies as its target audience.

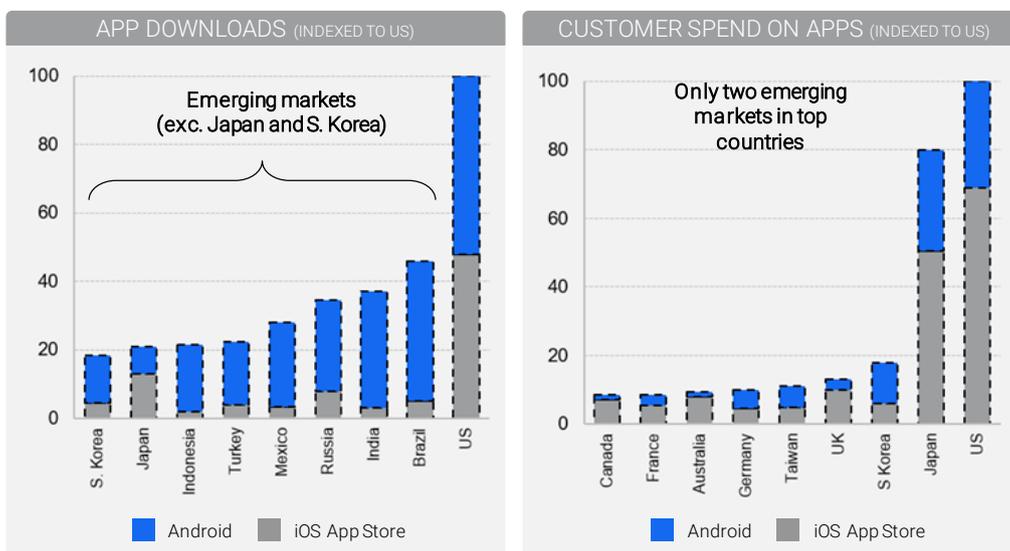
#### Number of Smartphones Users



As the demand for smartphones has consolidated worldwide, the reality of access, usage and purchasing of apps and digital services has been materially different by region. Despite the high volume of downloads of these services in emerging countries, originated revenues by the app stores and developers were practically inexistent compared with that in major global economies.

The reasons for this dichotomy are tied to income levels in each of these countries versus prices, but also to limited access to digital payment methods (e.g., credit card) by a relevant number of people in emerging countries (credit card penetration: 32% Brazil, India 3%, Indonesia 2%, vs 65% UK)

#### Top countries: app downloads vs consumer spend

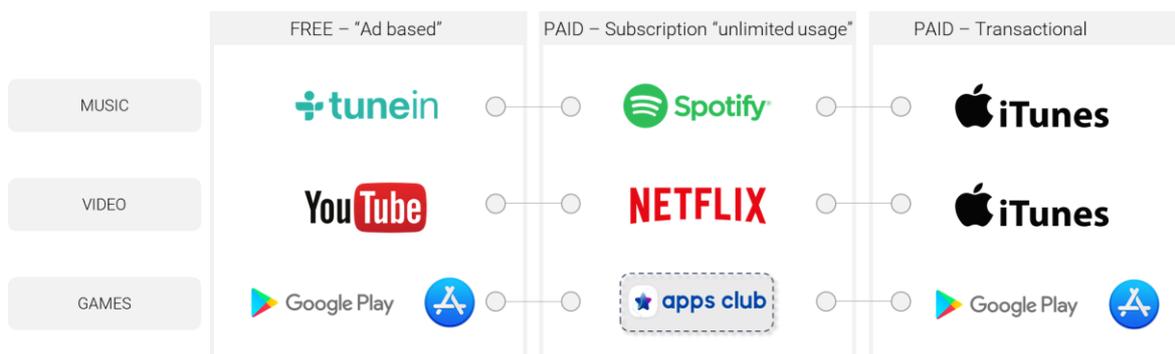


## Sector Overview

Willingness to pay for digital content is low and pre-paid SIM (cards credit balance) is the predominant payment method. By observing the asymmetry between strong demand and monetization of mobile apps in Brazil and other EM countries, Bemobi identified an opportunity to develop solutions allowing a more democratic access to these new digital services targeting billions of new smartphone users. Meanwhile, Bemobi helped the carriers to gain competitiveness in the distribution market for apps and other digital services.

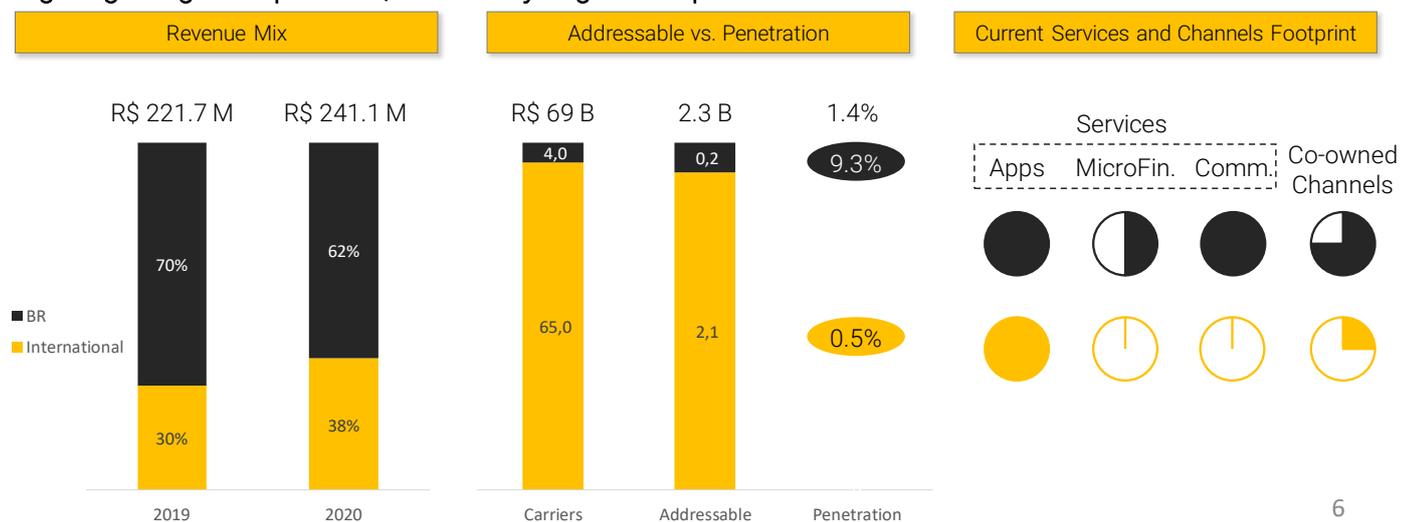
Through a pioneering business model, Bemobi was the first player in the Brazilian market and one of the first companies in the world to operate app & games platform under subscription structure and with no need for credit card. Its collection model uses the balance of prepaid clients or additional billing of postpaid clients, on top of traditional payment methods, to enable access for millions of unbanked individuals. This model is highly adherent to the reality of the majority of the population of Brazil and other emerging countries.

Subscription models have emerged across key digital media segments in three main categories. Bemobi's Apps Club is a subscription paid platform (The white label app currently represents roughly 76% of total revenues across 72 different countries).



We foresee additional growth potential given the penetration of subscriptions in Brazil (9.8%) compared with the international operations (0.5%) and the size of the addressable market (2.3 billion users) in which Bemobi operates.

### High organic growth potential, due to very large under penetrated addressable market:



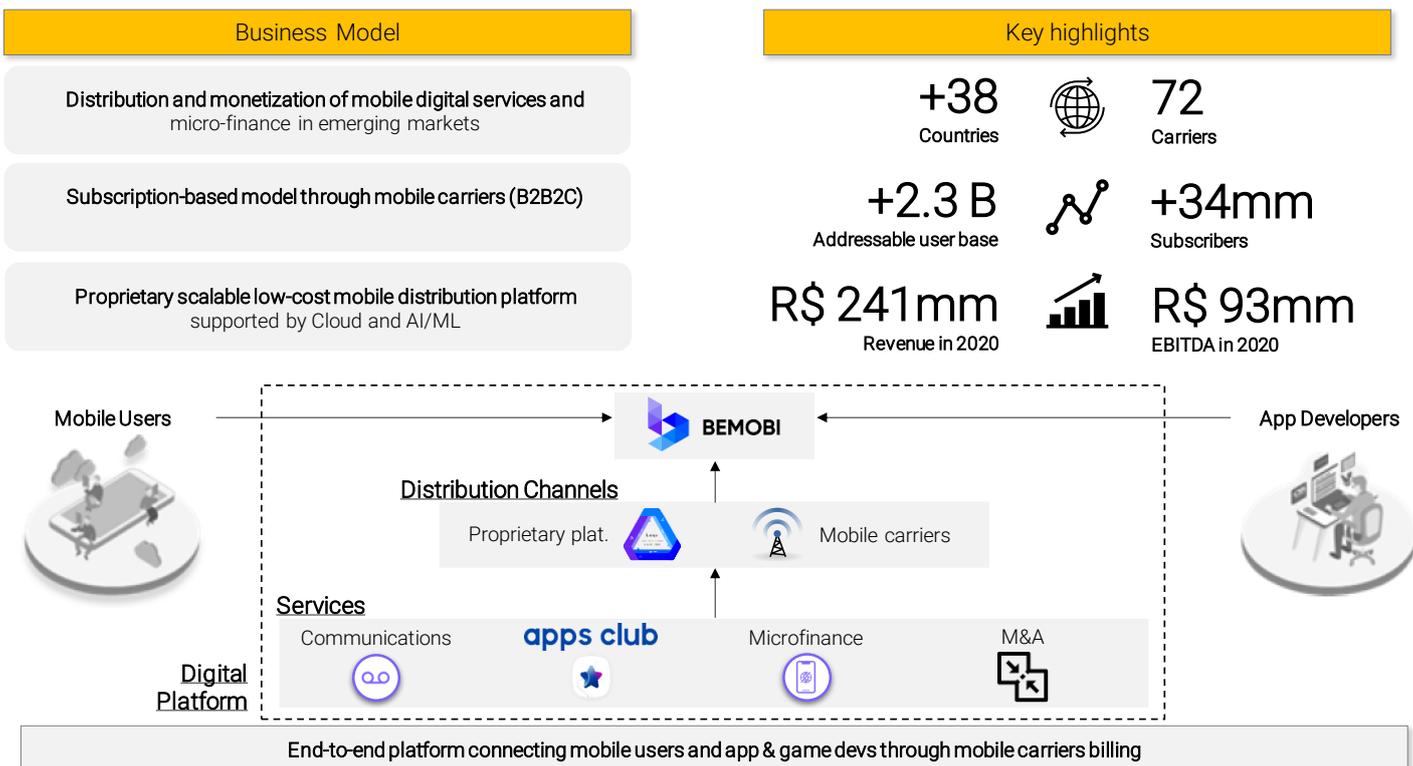
## Overview and Business Model:

Bemobi is a tech company specializing in the distribution and monetization of Apps, Games and mobile digital services in emerging markets. The business is based on a model of subscription and micro transactions at the right pricing point, considering the average income of the majority of the population of Brazil and other emerging markets.

The operation consists in a B2B2C model, in which they offer services to a company that offers them to the final consumer. Bemobi currently operates in partnership with mobile carriers, enabling payment via prepaid credit and postpaid accounts.

The company also has a proprietary platform for digital distribution (Loop) based on machine learning and Artificial Intelligence which allows to monitor the consumption of millions of mobile users, in partnership with some of the largest carriers in the world. The client journey is analyzed, and friction points are transformed into digital channels to offer different services.

### Bemobi Overview:



### Providing a win-win solution to connect developers, carriers and Bemobi

In its main business line of subscription of apps and mobile games, Bemobi provides a platform in which developers distribute their game, with several smartphone apps and games in their apps club. Bemobi creates a “end-to-end” platform connecting smartphone users to applications, games and services in a model capable of generating value for all parties involved through revenue share agreements.

## Overview and Business Model:

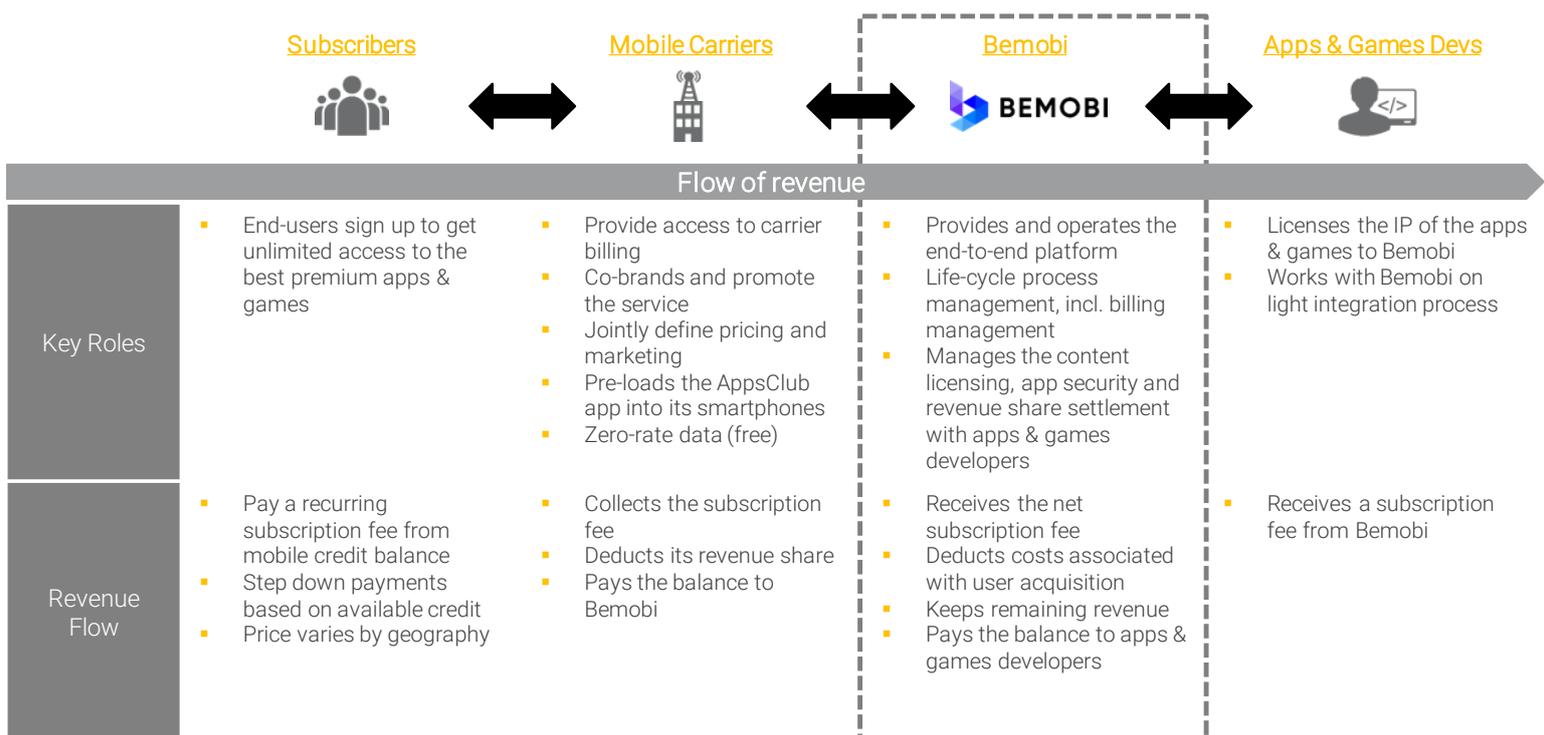
Regarding apps & games developers, they capture value through recurring incremental revenue due to the company's channels, the differentiated pricing model and the ability to collect, where they can access and monetize a significant group of users more effectively. In developed countries, developers sell their apps through Apple Store and Google Play and population can afford to pay for digital apps in a pay per use base, without facing any payment issue, as credit card penetration and the average income are much higher. That said, Bemobi enables its developers to increase its addressable market expanding their footprint in emerging markets and eliminating the risk of cannibalization in its main markets. Bemobi does not develop games and (it) does not intend to do it, since it could create some conflicts with its main suppliers (developers).

Mobile carriers enable Bemobi to use its customers' invoice, creating an accessible digital collection model for the majority of the population of the countries where it operates. The carriers are benefited from the offering to clients of a wide range of services, thus generating new revenues and increasing profitability of their current client base. The carriers usually integrate Bemobi's apps clubs, transforming a "white label" platform into its own brand (eg. TIM Games, Claro games).

For the final subscribers, they gain access to a complete portfolio of digital products and service at a reasonable price and with easy payments methods .

In relation to the revenue flow, Bemobi receives from the operators ~50% of the subscription fee. After receiving the amount transferred from the operators, collection of taxes and other expenses, the amount passed on to the developers represents approximately 30% of the total revenue.

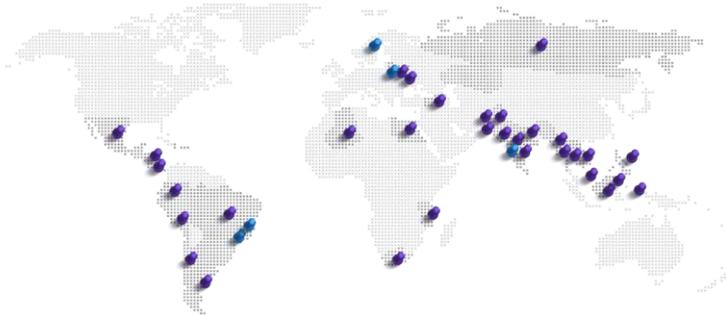
### Value Chain of Bemobi's Business Model (Connecting Devs and Users Through a Subscription-based Platform):



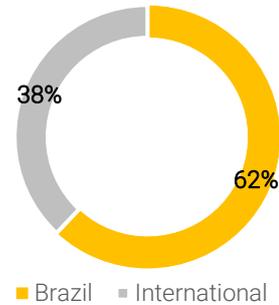
## Overview and Business Model:

Bemobi's services are integrated with 72 mobile carriers worldwide, giving access to an addressable market of more than 2.3 billion mobile users. They have an average of 34 million active subscriptions across 38 countries.

### Geographic Footprint:



### Geographic Revenue breakdown (4Q20):



### Key Subscription Service offering:

Bemobi has three major services lines:

**Apps and mobile games subscription:** hundreds of apps and games are included in their Apps Club in the premium version in exchange for a suitable and fixed subscription fee without need for credit card. Despite the predominance of the Games Club, Bemobi also has other apps in other categories such as education and health.

**Messaging services & communication:** end-to-end voice messaging platform with visual access through apps and/or integrated with text messaging/WhatsApp, robocall blocker and voice-to-text recognition via artificial intelligence.

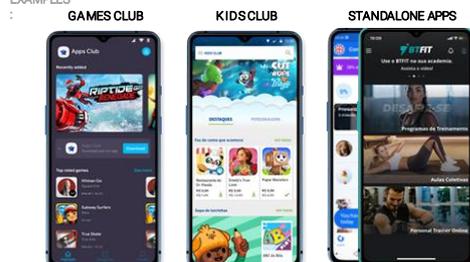
**Microfinance services:** Bemobi offers prepaid client's different solutions such as sale of top up in digital channels via e-payment, airtime, data and phone call advances. These offers are prioritized and presented to users based on their individual usage profile and needs.

### Key Subscription Service Offerings:

#### APPS SUBSCRIPTION

Distribution of standalone and bundles of top apps & games in a low price point subscription model

EXAMPLES



#### MICROFINANCE SERVICES & COMMUNICATION

Market-leading on voice messaging provider in Brazil

EXAMPLES



# Overview and Business Model:

## Distribution Channels:

Bemobi's growth path comes from the combination of different compelling services with a wide reach of distribution channels. The company has three main distribution channels aiming to promote its services to its addressable market:

- 1. Mobile Carrier Promotion:** Through a partnership model, operators run communication and marketing campaigns on their different proprietary channels to sell Bemobi' services to their customer base. The main selling channel is digital and this sale usually happens through messages (SMS, Sat Push and RCS) sending, in addition to its institutional websites, services marketplace and self-service applications. The campaigns are made by operators and Bemobi has no control over these initiatives. On the other hand, operators are encouraged to sell services to obtain revenue share at almost no cost.
- 2. Paid Online Campaign:** Bemobi works in partnership with leading apps and web properties that use their audience to promote your services to your users (e.g. Facebook, Google ads, Instagram, etc.). This channel has a higher CAC, and Bemobi faces the challenge of keeping that value below the customer's LTV. The advantage of this sales channel is the control that Bemobi has in defining the strategy and intensity of the campaign.
- 3. Loop:** Using Artificial Intelligence and Machine Learning, Bemobi developed a proprietary platform for digital distribution. Loop monitors the consumption of millions of mobile users. Their journey is analyzed, and friction points are transformed into digital channels that bring relevant offers to each user at the right time, in the most adequate channel and at a suitable price. For instance, when a prepaid client is running out credit, Loop can interact with them to offer a plan. This is a powerful and scalable platform that allows Bemobi to increase its capillarity with a very low acquisition cost.

## Main digital distributiou channels:

INDUSTRY STANDARDS DISTRIBUTION MODEL

- Mobile carrier promotions**  
When a deal is signed, the mobile carrier commits to doing marketing and promotion of the new service
- Paid online campaigns**  
Partnering with leading apps and web properties in emerging markets to promote Bemobi's service offering

EXAMPLES:

**Messages campaigns (SMS/RCS)**



**Store promotions and bundles**



**Revenue share based (e.g. Opera Mini) Paid per acquisition - CPA**



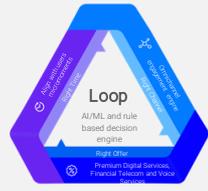
High dependence on MNOs (less control) and marketing investments (high CAC)

PROPRIETARY CHANNEL PLATFORM

**LOOP - AI and Data Analytics mobile orchestration**  
Bemobi's turnkey platform that captures users browsing and voice sessions when they are out of airtime to create a scalable digital distribution channel

EXAMPLES:

**Data driven (AI/ML) and rule-based decision engine**



**Loop**  
AI/ML and rule-based decision engine

**Right Offer**  
Personalized Digital Services, Financial, Telecom and Voice

**NCND portals and interactive voice response**



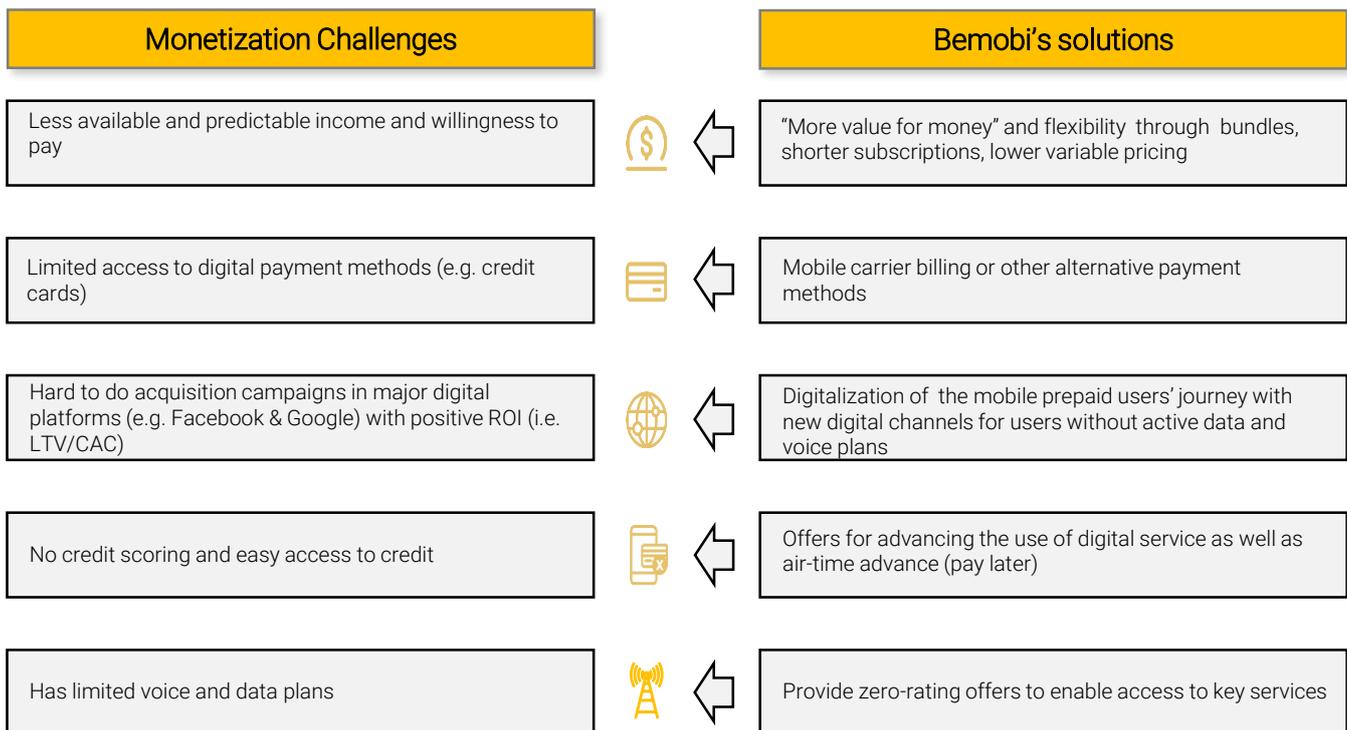
Integrated on MNOs Networks (high control) within a high traffic and scalable platform (low CAC)

## Overview and Business Model:

The company recently highlighted that it is working to enable other distribution channels, in addition to mobile carriers, such as (i) Brazilian digital banks and (ii) international digital wallets. This aims to accelerate this new growth venue, still incipient, but has great adherence with Bemobi's current B2B2C model. These possible new partners would also add attributes such as a large customer base and wide distribution, aside from enabling payment methods.

### Bemobi has proven its ability to close the "Monetization Gap" in the emerging markets with a clear value proposition

Through its 100% B2B2C model, Bemobi, managed to develop differentiated solutions that address the challenges of monetization in emerging markets. The company specializes in the distribution of digital content on the mobile platform and on micro transaction whose main characteristic is small tickets and large transaction volumes due to large customer bases. These small, low ARPU tickets are a reality in emerging markets. Part of the success of Bemobi's business model in emerging countries is the combination of distribution channels, alternative payment methods and an ARPU that fits the customer's pocket.



### AppsClub: Value proposition for consumers:

Distribution of standalone and bundles of top apps & games in a low price point subscription model. Bemobi's portfolio of games includes some of the biggest blockbuster (70 titles on the platform received editor's choice ranking in Apple Store and Google Play).

# Overview and Business Model:

★ apps club

Value Propositions for Consumers

- Top premium paid apps without ads
- Payment without credit card
- More value for money - over USD10,000 of premium apps and in-app purchases for only ~USD1-2 per month
- No need for a data plan to download new apps
- 7-day free trial
- Complements the existing "Free & Pay per Download" model from Google Play
- Leverages carrier brand, saves on brand marketing

70+

Editors' choice

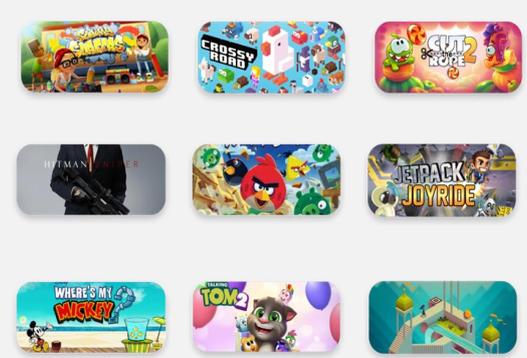
+350

Top 1 Google ranking

50mm+

downloads

~1200 Titles Highly curated – many of the best rated apps with ★★★★★ stars and above



## AppsClub: Strong Value proposition for developers

Bemobi has partnerships with more than 250 publishers and game developers in different countries, providing apps & games licenses to Bemobi, with a light integration process. The developer receives a subscription fee from Bemobi according to the app/game usage and licenses are given on a country basis.



"Bemobi's unique subscription model really proves to be one of the best mobile distribution solutions in Brazil and Emerging markets..."  
- Michail Michalczenia, Business Dev



"Bemobi is one of our best revenue stream on Android out of Google Play..."  
- Cyrille Imbert, CEO



"...Join Appsclub today and instantly reach millions of Emerging Markets mobile users."  
- Dmitry Surcherov, Business Dev



"Subscription was for sure coming to the apps world however nobody seemed to get it right. Then Bemobi's Apps Club came along and it's a game changer..."  
- Federico Llano, South Cone Mobile Manager

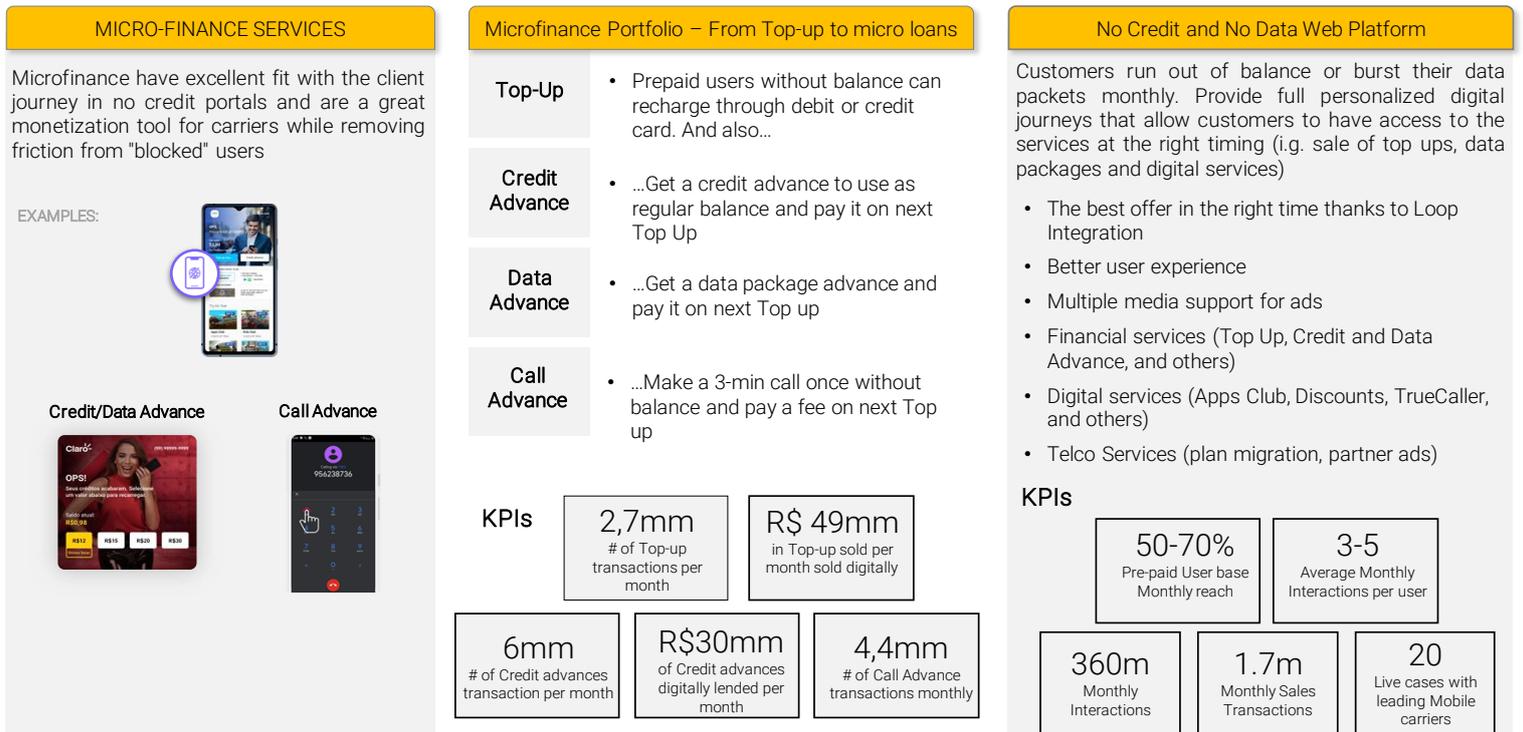
+200 publishers/developers



# Overview and Business Model:

## Beyond the Games: The Microfinance Opportunity

Microfinance services have a direct relationship with Bemobi's proprietary distribution channel platform, presented at times when users do not have active credits for making calls and accessing the internet. Not only being a great monetization tools for operators(also removing the friction of "blocked" customers, that is, customers without active credits to use their mobile phone plan) they are delivered in the right context to customers, such as, for example, in a call event without credit or browsing without credit.



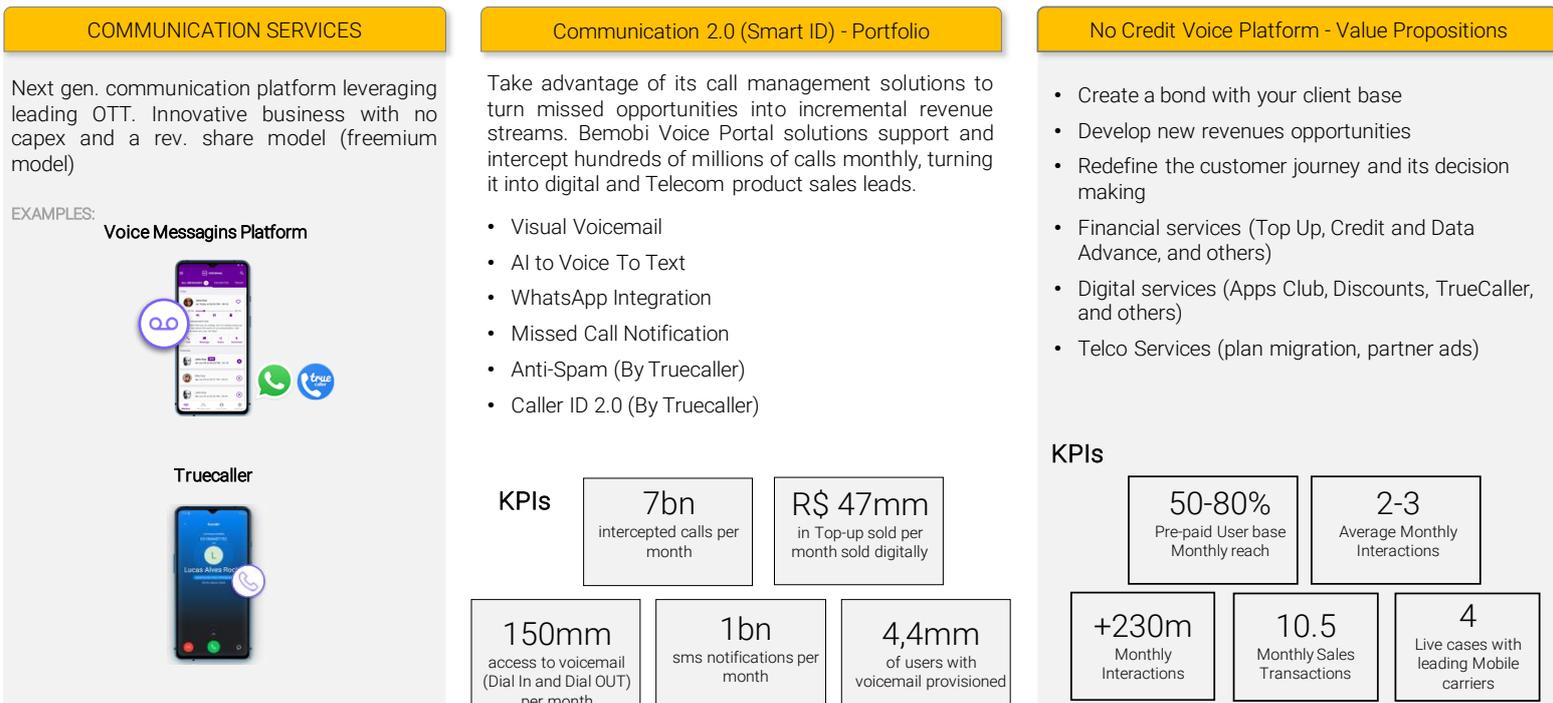
Microfinance solutions are a key pillar of Bemobi's growth strategy and already post solid results. Today, this segment accounts for 10% of the company's total net revenue (vs. 6% in 2019 ). With a different revenue share compared to the apps & games segment, operators takes 85% to 90% and the remaining refers to Bemobi stake. The microfinance segment characterized by higher transaction amounts but the share in revenues is lower.

**Limited credit risk:** as client pays in advance on their next top-up , losses are rare and when it occurs the materiality its low since it's a virtually and no cost service for the mobile operator. Even so, the companies set a limit value to ensure that Bemobi will not distribute credits without guaranteeing an adequate criteria, and losses are deducted from the Bemobi revenue share.

# Overview and Business Model:

## Messaging services & communication

Communication services are responsible for making and receiving voice calls. The concept of Communication 2.0 delivers different solutions to follow the customer's journey both online (Caller ID and Anti-Spam) and offline (Voice Messages and missed call notification).



## Data is king and Loop is the crown jewel

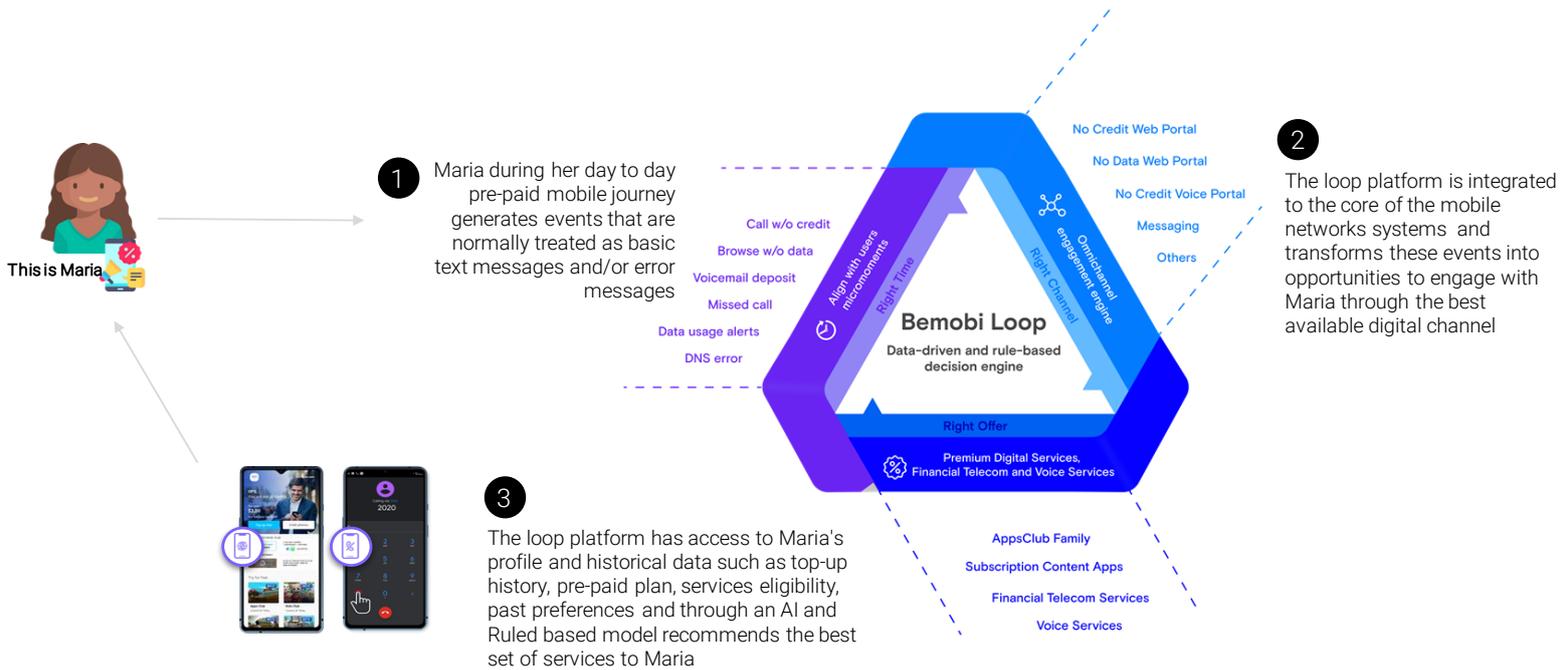
Bemobi specializes in digital channels, unlike other companies that use channel as a way of communication.

Loop is integrated into the core of the mobile operator's system to have a broader history of the operator's end customer behavior. A customer's journey generates important events and the Loop contextualizes these histories, allowing a better usage experience and monetization opportunities, by presenting services of greater relevance to users at the right time.

## How does it work?

When a prepaid customer runs out of balance to make calls or surf the internet he is blocked and directed to the Loop platform that already has the customer's data history, such as top-up history, service preferences and channels and it is able to design a page with a series of offers including the download of the apps club with limited use for a week or two. The loop was initially created to address the distribution of the apps club, with a very low CAC, but soon proved to be a better tool that opened a new growth venue for microfinance services such as credit advance and communication services.

# Bemobi Overview and Business Model:



Loop's value proposition for the operator is the inclusion of a powerful tool to increase the knowledge and engagement of its customer and monetize it, without the operator having to invest in the continuous development of this platform. Bemobi has 20 mobile operators using the platform, with more than 360mn monthly interaction. Loop is responsible for 63% of gross ads.

## Bemobi's distribution channels:

	TOTAL	INDUSTRY STANDARDS		PROPRIETARY CHANNEL PLATFORM
		Mobile carriers' promotions	Paid online campaigns	LOOP – AI and Data Analytics mobile orchestration
Total	100%	11.2%	25.8%	63%
Brazil	65%	15.3%	9.7%	75%
International	35%	3.7%	55.5%	40.8%

## Competitive Landscape

Considering the presence of Bemobi on its three business fronts, we do not see a direct competitor operating in emerging markets. However, looking by segment, Bemobi competes with different companies.

**In the Games segment, Gameloft can be considered its main competitor.** With a B2B2C subscription model, Gameloft is a French game developer that also distributes on a global platform in a model similar to Bemobi. Gameloft operates in 26 countries and competes directly with Bemobi in the game segment in some of these countries. The main difference is that Gameloft also produces some of the games that are distributed on its platform. Bemobi's managed to lead the apps & games subscription space in all key dimensions creating higher barriers to entry.

**In the microfinance segment, the competition that Bemobi faces is much more fragmented across different global players.** Bemobi is a new entrant in this segment, having started operations in 2019 and trying to differentiate itself with Loop's continuous development and machine learning. Continuous growth and scale are important to keep the virtuous cycle capturing better content.

**In the microfinance space, Juvo, a US-based startup, seems to be the most differentiate player, trying to go beyond than just offering micro-loans to prepaid mobile customers when they are short on data or minutes.** The company is working to make its credit score "portable" so that users who have shown positive financial habits can gain access to other financial services. It's an ambitious goal and they seem to just be beginning.

Comparison for each category below is the result of a weighted average of technical, market and functional grades assigned for each criterion based on Bemobi's internal analysis.

### Competitive Landscape:

	 <b>BEMOBI</b> Services, Microfinance & Channels	 <b>fonYou</b> Channels & Financial	 <b>upstream</b> Channels & Services	 <b>TIMUE</b> Microfinance & Services	 <b>tiaxa</b> Microfinance & Channels	 <b>Juvo</b> Microfinance	 <b>channel vns</b> Microfinance	 <b>GAMELOFT</b> Game Services
<b>Apps Subscription services</b> Catalog, DRM and Wrapping Tech, Store Front, Distribution and Scale		-		-	-	-	-	
<b>Other Subscription /Communications</b>		-			-	-	-	-
<b>Microfinance</b> Air-time, Data and voice advance			-					-
<b>Digital Channels &amp; Platform</b> No Credit Web/Voice Portals, orchestration engine, Service Integration Manager						-	-	-
<b>HQ &amp; Key Geographies<sup>1</sup></b>	<b>BRAZIL</b> Brazil, Latam, CIS, SEA, SA	<b>SPAIN</b> Latam, Africa	<b>GREECE</b> Brazil, MEA, SA	<b>PORTUGAL</b> Latam, MEA, SA, SEA	<b>CHILE</b> Latam, SEA	<b>USA</b> Latam, SEA	<b>DUBAI</b> MEA, SEA	<b>FRANCE</b> Latam, MEA, SA, SEA

## Bemobi Competitive Landscape

Bemobi also faces indirect competition in the Apps&Games with relevant global players (eg. Apple, google, GameClub) that distribute its bundle products in different categories with a higher fixed price (~USD 4.99) accepting only credit card as payment method.

## M&A: Additional Opportunities to further accelerate

Over the past few years, Bemobi delivered continued growth in both volume of transactions and subscribers. In its basic form, its playbook was grounded in two major elements: (i) services: the launch of services catering to mobile users in emerging countries increasing their addressable market (ii) digital channels: alongside the rollout of services, they integrate its proprietary platform for digital distribution (Loop), allowing a scalable and predictable distribution to convert the addressable users into subscribers. The combination of these two pillars supported Bemobi’s sustainable growth in the last few years.

When pricing its IPO in February/21, the company based its valuation on an organic model of growth in line with its CAGR for the past 3 years. Notwithstanding, management explored in its equity story additional opportunities to grow via M&As. Of the total raised in its issuance, approximately ~ R\$ 600 million will be allocated to M&A. According to management, there are several M&A Opportunities with high level of potential revenue synergies with upside to add complementary services and further accelerate growth rate.

### Bemobi’s inorganic strategy will be focused on:

- 1. Geographies:** Revenue growth accelerating penetration into new geographies (e.g. Africa)
- 2. New channels:** acquiring service provider to expand capillarity increasing their addressable market through new carriers.
- 3. New Services/Apps:** Expanding service offering acquiring companies services that can be distributed through Bemobi’s platform.

Although Bemobi has a limited M&A track record, having growth mainly organically in the last few years, we believe that the acquisition of Novitech in 2019 highlights the synergistic characteristics and the potential to scale a new service on its platform. This acquisition helped Bemobi to launch communication channels and financial services in LatAm.



The company has 18 companies mapped and six ongoing discussions, two of them with a non-bidding offer. According to company’s management, the largest target has revenues of ~R\$ 160 million (~60% of Bemobi’s revenues). Management is confident that at least one deal should be closed by 2H21.

## M&A: Additional Opportunities to further accelerate

**A true tech company and not just a Telecom:** some investors may argue that Bemobi deserves a discount to other tech companies, since its current business model depends on the Telecom Business, which currently trade at very low multiples due to slow growth as a mature business. Indeed, many big telcos in Brazil and worldwide are trading at low multiples, which could spark discussions about the dilemma of a value trap stock. We do not agree to do a read-cross, contaminating Bemobi's growth profile, and we think the current valuation is not reflecting clear growth opportunities ahead. We believe that over time, Bemobi has been able to identify different opportunities by filling monetization gaps and leveraging the vast distribution channel of mobile operators, with its tens of millions of customers to generate a business model.

**Over time, OTT companies were able to scale their business,** building on the vast comprehensiveness of mobile operators. And we think that for Bemobi it is not different. Having said that, we did some channel checks with some key executives from the Telecom industry, including some clients in Brazil to have a broader view about Bemobi deliveries. Some players in the industry mentioned Bemobi's ability to bring a broader view and deeper customer knowledge by generating business insights and creating new monetization opportunities for the telcos.

## Q1 Preview

We expect solid results, with a 8.3% YoY sales growth, driven by a strong acceleration of the microfinance business in Brazil. It is worth mentioning that Bemobi's Q1 are seasonally weaker than other quarters due to consumers spending restrictions. That said, even with IPO expenses increase, we expect the company to deliver 50bps EBITDA margin expansion due to operational leverage.

### PREVIEW

	1Q21e	1Q20a	YoY	4Q20a	QoQ
<b>Consolidated</b>					
<b>Net Sales</b>	<b>63</b>	<b>58</b>	<b>8,3%</b>	<b>63</b>	<b>-1,3%</b>
Gross Profit	42	38	10,2%	44	-5,2%
Gross mg	67,2%	66,0%	120 bps	70,0%	-280 bps
<b>EBITDA</b>	<b>24</b>	<b>21</b>	<b>9,8%</b>	<b>26</b>	<b>-11,0%</b>
EBITDA mg	37,6%	37,1%	50 bps	41,7%	-410 bps
<b>Net Income</b>	<b>14</b>	<b>12</b>	<b>12,9%</b>	<b>7</b>	<b>91,8%</b>

## Key Risks

Key risks. We see five main concerns regarding Bemobi's investment case:

- (i) **Competition in the mobile game app**, mainly from the free games as a result of the concentration of its main customers in the emerging markets on the low-income segment;
- (ii) **Internalization of the service**: mobile carriers can choose to internalize the digital channel service offered by Loop
- (iii) **Strong concentration of revenue on 3 operators** (TIM, Claro and Vivo) which in 2020 were responsible for 65% of consolidated revenue (vs. 63% in 2019)
- (iv) **M&A execution**: few track record
- (v) **Positioning Risk**

## XPi vs. Bloomberg estimates

	XPi estimates			Bloomberg Consensus			XPi vs BBG		
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Net Sales	263	290	322	302	421	558	-12,8%	-31,1%	-42,3%
Gross Profit	176	193	215	199	278	369	-11,6%	-30,3%	-41,8%
Gross mg	66,7%	66,7%	66,7%	65,8%	66,0%	66,2%	90 bps	70 bps	50 bps
EBITDA	99	115	134	115	154	204	-13,7%	-25,3%	-34,0%
EBITDA mg	37,7%	39,7%	41,7%	38,1%	36,6%	36,5%	-40 bps	310 bps	520 bps
Net Income	54	98	113	61	89	112	-11,3%	10,3%	1,3%

## Financial Statements Summary

Key Financials (R\$m)	2018a	2019a	2020e	2021e	2022e	2023e
Net Sales	200	222	241	263	292	324
Gross Profit	134	149	161	176	195	216
EBIT	65	66	66	82	104	122
<i>EBIT mg</i>	32,6%	29,7%	27,5%	31,0%	35,5%	37,5%
EBITDA	79	84	93	101	119	139
<i>EBITDA mg</i>	39,6%	38,1%	38,7%	38,2%	40,7%	42,7%
Net Income	86	30	37	51	90	105
Free Cash Flow (R\$m)	2018a	2019a	2020e	2021e	2022e	2023e
Net Income	86	30	37	51	90	105
(+) D&A	14	19	0	19	15	17
Working Capital Variation	0	-25	60	-2	1	-8
Operating Cash Flow	100	24	60	68	106	114
Capex	-7	-32	0	-16	-15	-16
Free Cash Flow	93	-8	60	52	92	98
Dividends			0	187	21	24
Balance Sheet (R\$m)	2018a	2019e	2020e	2021e	2022e	2023e
<i>Total Gross Debt</i>	139	7	245	0	0	0
<i>Cash &amp; Equivalents</i>	34	74	111	761	832	905
Net (debt) / cash	105	-67	134	-761	-832	-905
Net (debt) / EBITDA	1,3x	-0,8x	1,4x	-6,4x	-6,0x	-5,3x
Return / Yield Metrics	2018a	2019e	2020e	2021e	2022e	2023e
ROIC	240,6%	61,4%	57,9%	79,5%	98,1%	104,4%
ROE	45,3%	7,9%	23,9%	4,9%	8,1%	8,8%
Valuation Metrics	2018a	2019e	2020e	2021e	2022e	2023e
EV/Sales	0,5x	(0,3x)	8,2x	4,1x	3,5x	2,9x
EV/EBITDA	1,3x	(0,8x)	21,3x	10,8x	8,6x	6,8x
P/E	0,0x	0,0x	50,1x	36,2x	20,5x	17,6x

## Valuation

Our R\$30.0 YE21 TP derives from DCF-based (FCFF) valuation, where our main assumptions include: (i) 5.0% LT growth rate and (ii) 11.0% WACC. Implying 2021 7.5x EV/Sales and 19.6x EV/EBITDA (vs. 4.1x V/Sales and 10.8 EV/EBITDA at current levels).

On our bull case scenario bellow, considering M&A optionality's aforementioned on this report, with 20-2023e Sales CAGR of 25.4%, our YE21 TP could go up to R\$ 36.0/sh without any multiple re-rating. Although we believe its fair to expect some multiple expansion.

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	82	104	122	154	182	206	234	256	275	290	305
(-) Taxes	(28)	(29)	(35)	(44)	(52)	(58)	(66)	(73)	(78)	(82)	(104)
(+) D&A	19	15	17	16	18	20	17	18	19	20	21
(+/-) Working Capital Change	(2)	1	(8)	(13)	(2)	(9)	(9)	(8)	(7)	(5)	(6)
(-) Capex	(16)	(15)	(16)	(19)	(18)	(19)	(21)	(23)	(24)	(25)	(26)
<b>Free cash flow firm</b>	<b>55</b>	<b>75</b>	<b>80</b>	<b>94</b>	<b>130</b>	<b>139</b>	<b>155</b>	<b>171</b>	<b>185</b>	<b>197</b>	<b>191</b>
PV FCFF		68	65	69	85	82	83	82	80	77	67

WACC Calculation	
Risk Free Rate	0,8%
Country Risk	2,4%
Equity Risk Premium	5,7%
Levered Beta	1,02
Inflation Differential	2,0%
<b>Cost of Equity</b>	<b>11,0%</b>
Debt Rate	0,0%
Tax Rate	34,0%
<b>After Tax Debt Rate</b>	<b>0,0%</b>
Target Debt/(Debt + Equity)	0,0%
<b>WACC</b>	<b>11,0%</b>

### Target Price - Sensitivity Analysis (R\$/sh)

		Growth in perpetuity					
		3,0%	4,0%	5,0%	6,0%	7,0%	8,0%
WACC	10,0%	29,0	31,0	34,0	38,0	46,0	60,0
	10,5%	28,0	29,0	32,0	35,0	40,0	50,0
	11,0%	26,0	28,0	30,0	32,0	36,0	43,0
	11,5%	25,0	26,0	28,0	30,0	33,0	38,0
	12,0%	24,0	25,0	26,0	28,0	31,0	34,0
	12,5%	23,0	24,0	25,0	27,0	29,0	32,0

### Target Price - Sensitivity Analysis (R\$/sh) – Target EV/Sales of 7.5x in 2021

		Sales CAGR 2020-23e					
		0,4%	5,4%	10,4%	15,4%	20,4%	25,4%
Target EV/Sales	4,5x	19,0	20,0	21,0	23,0	24,0	25,0
	6,0x	23,0	24,0	26,0	27,0	29,0	31,0
	7,5x	26,0	28,0	30,0	32,0	34,0	36,0
	9,0x	30,0	32,0	34,0	37,0	39,0	42,0
	10,5x	34,0	36,0	39,0	42,0	45,0	48,0
	12,0x	37,0	40,0	43,0	46,0	50,0	53,0

## Valuation

We ran a sensitivity analysis to better understand 2020-2023e Sales CAGR and EBITDA margin expansion under conservative assumptions. We highlight that we did not embed any future M&A in our assumptions.

### Target Price - Sensitivity Analysis (R\$/sh)

EBITDA margin gain per year 2020-2023e	Sales CAGR 2020-23e						
		0,4%	5,4%	10,4%	15,4%	20,4%	25,4%
-3,0%	24,0	26,0	29,0	32,0	35,0	39,0	
-1,0%	24,0	27,0	29,0	32,0	36,0	39,0	
1,0%	24,0	27,0	30,0	33,0	36,0	39,0	
3,0%	25,0	27,0	30,0	33,0	36,0	40,0	
5,0%	25,0	27,0	30,0	33,0	36,0	40,0	
7,0%	25,0	27,0	30,0	33,0	37,0	40,0	

### Our key assumptions are:

- 2020-2023e Sales CAGR of 10.4%;
- Capex, Taxes and WK variation are in-line with our financial statements;
- Tax rate in-line with Bemobi's, removing the tax benefit at perpetuity;
- +100bps YoY EBITDA margin expanse 2021-2023e, from 38,7% in 2020. We note there is plenty room to improve EBITDA margin with new business lines and international expansion. However, we bring a sensitivity analysis for different levels of margin gains;
- We do not assume any future M&A in our estimates (according to management, if the two acquisitions mentioned on page 18 are completed, the contribution could double Bemobi current revenue).

## Valuation Comps

Companies	Country	Currency	Current Price	Market Cap (US\$m)	ADTV (US\$m)	P/E		EV/EBITDA		EV/SALES		2020-22 CAGR Sales
						2021e	2022e	2021e	2022e	2021e	2022e	
BEMOBI	BZ	BRL	20	354	n.a.	36,2	20,5	10,9	9,2	4,1	3,7	10,0%
LOCAWEB	BZ	BRL	24	2.630	204,3	164,9	93,0	87,9	53,6	21,3	14,5	52,0%
TOTVS SA	BZ	BRL	33	3.647	176,7	48,3	37,3	25,6	20,9	6,0	5,1	17,1%
LINX SA	BZ	BRL	37	1.354	54,8	164,8	79,6	29,7	24,3	6,9	6,1	13,6%
<b>BZ Technology Avg.</b>						<b>126,0</b>	<b>69,9</b>	<b>47,7</b>	<b>32,9</b>	<b>11,4</b>	<b>8,6</b>	<b>28%</b>
NETFLIX INC	US	USD	487	215.800	2.401,6	45,0	37,8	33,0	26,8	7,6	6,6	17,3%
SPOTIFY	SW	USD	228	43.541	484,7	n.a.	n.a.	n.a.	207,2	3,7	3,1	19,4%
CITRIX	US	USD	119	14.812	187,4	20,6	17,3	16,6	13,9	5,3	4,9	7,1%
CORNERSTONE	US	USD	42	2.778	20,3	18,5	16,6	11,4	10,8	4,5	4,1	12,3%
DROPBOX	US	USD	25	10.203	174,7	19,1	17,2	15,0	13,4	5,1	4,6	10,2%
INTUIT INC	US	USD	393	107.493	512,5	47,0	40,5	33,0	28,1	12,0	10,4	18,2%
MICROSOFT	US	USD	247	1.861.655	6.661,6	32,3	29,8	22,6	20,1	10,9	9,8	14,7%
ORACLE	US	USD	80	231.115	826,2	17,9	16,7	13,0	12,7	6,6	6,4	2,6%
PTC	US	USD	129	15.091	118,9	39,0	33,7	28,2	24,9	9,5	8,7	15,2%
SOLARWINDS	US	USD	17	5.219	28,1	17,9	15,9	14,9	13,1	6,5	6,0	6,5%
SAP SE-SPONS	GE	USD	140	171.401	128,3	22,4	22,5	20,6	17,1	5,4	5,2	2,7%
VMWARE	US	USD	164	68.612	196,8	23,2	24,2	14,7	15,4	6,0	5,5	12,2%
ADOBE	US	USD	479	229.144	1.240,2	40,4	35,1	29,6	25,7	14,8	12,9	17,7%
SALESFORCE.COM	US	USD	214	197.256	1.822,1	46,1	62,1	30,5	25,2	9,1	7,4	23,1%
BOX INC	US	USD	22	3.650	60,5	34,3	28,1	18,7	16,9	4,8	4,4	10,3%
BANDWIDTH	US	USD	117	2.938	76,2	259,6	186,7	78,0	68,1	6,5	5,5	30,9%
ACTIVISION BLIZZ	US	USD	93	72.395	567,0	25,0	21,5	16,8	14,8	7,8	6,9	9,0%
ZYNGA	US	USD	10	11.247	208,7	25,4	22,0	16,9	14,5	3,9	3,6	18,9%
TAKE-TWO	US	USD	169	19.467	255,4	28,2	28,7	18,9	19,6	5,1	4,9	11,8%
ELECTRONIC ARTS	US	USD	141	40.455	376,2	25,6	23,0	16,1	14,6	5,8	5,3	12,8%
NETEASE INC	CH	USD	106	70.815	250,0	25,4	21,5	19,8	17,3	4,4	3,8	19,0%
<b>US Main Peers Avg.</b>						<b>40,6</b>	<b>35,0</b>	<b>23,4</b>	<b>29,5</b>	<b>6,9</b>	<b>6,2</b>	<b>14%</b>
<b>Avg.</b>						<b>83,3</b>	<b>52,5</b>	<b>35,6</b>	<b>31,2</b>	<b>9,2</b>	<b>7,4</b>	<b>21%</b>

## ESG: Diversity is the name of the game

Given that Bemobi recently went public, it was expected the company to lack some data within the ESG agenda. Even though, we highlight Bemobi's commitment with this thematic as intrinsic to the company, mainly on the **Social** pillar, which, in our view, is the most important for the sector. On the **Governance** front, we positively acknowledge that (i) company's shares are listed on the Novo Mercado segment; and (ii) Bemobi's independent majority on its Board of Directors. Regarding the **Environmental** pillar, which has less materiality for technology companies, we welcome company's current initiatives, despite we still see room for improvement. **All in all, we positively acknowledge company's general ESG commitments, while we look forward to seeing more advances on Bemobi's ESG data disclosure.**

### Environmental

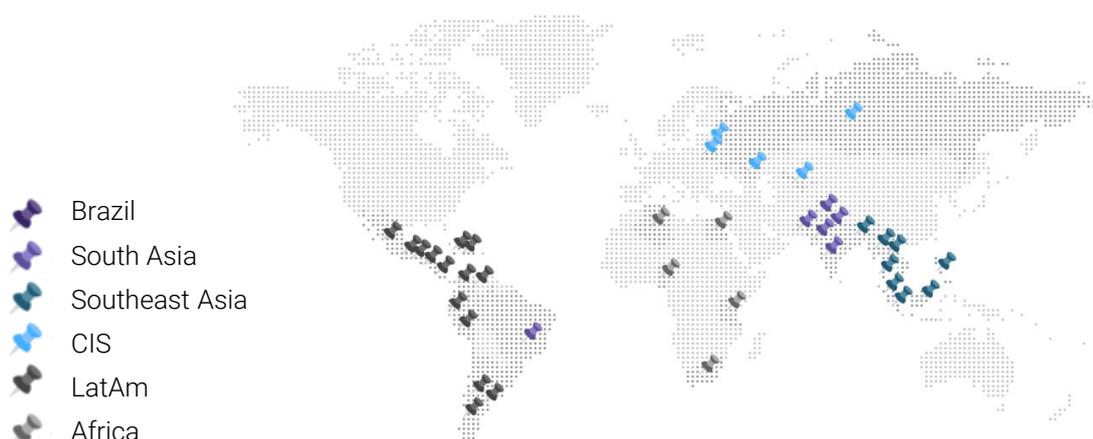
Though technology sector's direct environmental footprint is relatively small when compared to many other industries, **Bemobi has already stated initiatives to reduce its impacts on the environment**, such as recycling, a non-printing program, and conscious water consumption in the headquarter. In addition, is worth mentioning that, once the digitization and cloud computing growth increase the need for energy use and, consequently, the carbon emissions associated with this, it is important to start seeing this topic as material. On this matter, despite we see room for further initiatives going ahead, we highlight company's hiring program, in which they plant an amount of trees equivalent to the number of interns hired.

### Social

Bemobi has positive initiatives on the S pillar, with highlight to company's (i) award from the **Great Place to Work**<sup>1</sup>, received since 2016; and (ii) **engagement in promoting diversity and inclusion**.

**(i) Labor management:** Bemobi has active operations in 37 countries, with offices in 4 places (Brazil, Ukraine, Norway and India), in addition to development centers in all of them, except Norway. Bemobi has its employees located in 15 countries representing 19 nationalities. Company's total workforce is composed by ~250 employees, with 71% located in Brazil (Rio de Janeiro and São Paulo), 15% Ukraine, 4% in Norway and the remaining scattered through a variety of countries including India, the Philippines, Indonesia, Bangladesh, Vietnam and Pakistan.

*Bemobi's world presence*



## ESG: Diversity is the name of the game

### Social (cont.)

**(ii) Diversity and Inclusion:** The diversity promotion is a singular challenge for all the technology industry due to the still lack of female professional in this segment, however, Bemobi is well compromised with the diversity and inclusion agenda, mainly through (i) the award program for employees whose nominate women candidates – **women represent ~25% of company's workforce**; (ii) hiring refugees; (iii) promoting events aligned with the **LGBTQ+ agenda** conducted by its own employees; and (iv) promoting wage equity for men and women.

**(iii) Data Security:** Still on the S front, one important topic that is worth watching is data security. The company is exposed to data breach risk, issue inherent to its industry. The increase in online data collection, coupled with the strengthening in privacy regulations, such as the General Data Protection Law (LGPD, in Portuguese), also means a need for technology companies to have better practices in place to protect customers' privacy and safeguard sensitive data. Prior to the public offering, company shares were totally owned by Otello Corporation AS, a Norwegian company. **Much of Bemobi's current politics has been inherited from this company, including those related to data protection, with solid measures in course.**

### Governance

Prior to company's IPO (priced on February 8th), Bemobi was directly controlled by Bemobi Holding AS, whose shares are totally owned by Otello Corporation ASA, a holding company listed on the Oslo Stock Exchange. Currently, **the company has its shares (BMOB3) listed in the Novo Mercado segment**, the highest level of corporate governance practices for B3 (Brazilian Stock Exchange) and has as main shareholders the Otello Technology Investment AS (35.99%), Truxt Investimentos Ltda (10.35%) and Ponta Sul Investimentos Ltda (10.08%), with the remaining shares on free float (43.58%).

Also, Bemobi has its own **Code of Ethics** and **grievance channel** attending employees, clients and third parties, which counts with external audition, in order to mitigate any issues harmful to the governance pillar. It is worth noting that the **company is aligned with practices recommended by IBGC** (Brazilian Institute of Corporate Governance) under the Brazilian Code of Corporate Governance, which we welcome, and we also note that since the IPO, Bemobi has its own area of Compliance and an Audit Committee.

When it comes to Board of Directors, we positive highlight that Bemobi's Board has (i) an **independent majority** (4 out of 6 members); and (ii) **woman presence**, Mrs. Fiamma Zarife, which led Bemobi to stand out vs. its peers within the technology industry – *see more on next page*. On this topic, we note there is a clear room for improvement on the sector regarding the diversity agenda. According to MSCI, diversity concerns have raised questions about the corporate culture at young tech companies. **In our view, Bemobi is well compromised with diversity and inclusion agenda, both in terms of its total workforce and leadership positions, going beyond the gender equality.**

# Appendix 1 – Directors and Board Members

## Directors

 23	<b>Pedro Ripper – CEO and Co-Founder</b> <b>Since 2013</b> VP  CEO Brazil  CEO 
 29	<b>Peter Panait – SVP International Market</b> <b>Since 2016</b>  SVP of Commercial Operations
 17	<b>Ricardo Bozzetto – SVP LatAm</b> <b>Since 2015</b> Sales and business development Director  Product Manager 
 39	<b>Helge Dahl – VP Bus. Development</b> <b>Since 2018</b> SVP of Business Development and Products  Director Technical Sales Nordic & Baltic region & Head of R&D Program Office 
 20	<b>Felipe Goldin – VP Technology (CTO)</b> <b>Since 2020</b> CTO  CTO  Technology Director 
 23	<b>Rodin Spielmann – VP Finance (CFO)</b> <b>Since 2018</b> Tech & Internet Banker  CFO  CFO and IR  Coordinator 
 20	<b>Ricardo Santos – VP Products</b> <b>Since 2018</b> Business Development & Senior Marketing Manager  Head of Product 

## Board Members

	<b>Pedro Ripper</b> CEO and Co-Founder at Bemobi Board Member at Iguatemi		<b>Carlos Piani</b> CEO of HPX (NYSE SPAC) Chairman Equatorial e Brasil Brokers. Conselho BR 
	<b>Lars Boilesen</b> CEO at Otello Former CEO at Opera		<b>Fiamma Zarife</b> Managing Director at Twitter 
	<b>Francisco Valim</b> Former CEO at Via Varejo Former CEO at Oi and NET 		<b>Roger Solé</b> Board Member at Oi CMO WeWork (Global) Former CMO at TIM Brasil 

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## Disclaimer

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- 12) XP Investimentos is exempt from any liability for any damages, direct or indirect, that come from the use of this report or its contents.
- 13) Technical analysis and fundamental analysis follow different methodologies. Technical analysis is performed following concepts such as trends, support, resistance, candles, volume, and moving averages, amongst others. Fundamental analysis uses as information the results disseminated by the issuing companies and their projections. In this way, the opinions of fundamental analysts, who seek the best returns given the market conditions, the macroeconomic scenario and the specific events of the company and the sector, may differ from the opinions of technical analysts, which aim to identify the most likely movements on asset prices, using "stops" limit possible losses.
- 14) Investment in stocks is appropriate for moderate and aggressive profile investors, according to the suitability policy practiced by XP Investimentos. Equity investments available are portion a company's capital that is traded on the market. Stock is a variable financial investment (i.e. an investment in which profitability is not pre-established and varies depending on market quotations). Investment in stock is a high-risk investment and past performance is not necessarily indicative of future results and no statement or warranty, expressed or implied, is made in this material in relation to future performance. Market conditions, macroeconomic scenario, company and sector specific events can affect investment performance and may even result in significant asset losses. The recommended duration for equity investments is medium-long term. There is no guarantee of investment return for customers' investments in stock.
- 15) Investment in options is preferably indicated for aggressive profile investors, according to the suitability policy practiced by XP Investimentos. In options market, the purchase or sale rights of a good shall be negotiated at a price fixed at a future date, and the purchaser of the negotiated duty should pay a premium to the seller as in a secure agreement. Operations with these derivatives are considered very high risk for presenting high risk and return relationships and some positions present the possibility of losses higher than the capital invested. The recommended duration for the investment is short-term and the customer's assets are not guaranteed in this type of product.
- 16) Investment in terms is indicated for aggressive profile investors, according to the suitability policy practiced by XP Investimentos. They are contracts for the purchase or sale of a certain number of shares at a fixed price for settlement within a specified period. The term of the contract is freely chosen by the investors, complying with the minimum period of 16 days and a maximum of 999 days. The price will be the value of the added share of a portion corresponding to the interest which are set freely on the market, depending on the term of the contract. Every transaction in the term requires a guarantee deposit. These guarantees are provided in two forms: coverage or margin.
- 17) Investments in futures markets are subject to significant loss of principal, and are therefore appropriate for aggressive profile investors, according to the suitability policies practiced by XP Investimentos. A commodity is an object or price determinant of a future contract or other derivative instrument, which may substantiate an index, a fee, a movable value or a physical product. Commodities are considered high risk investments, which include the possibility of price fluctuation due to the use of financial leverage. The recommended duration for commodity investments is short-term and customers' assets are not guaranteed in this type of product. Market conditions and the macroeconomic scenario can affect the performance investments.
- 18) This institution adheres to ANBIMA Code of Regulation and best practices for the distribution activity of retail investment products.

