



122.22	610.54
194.20	121.45
23.14	192.43
	22.85
60	

A candlestick chart showing price movement over time, with green bars for upward movement and red bars for downward movement. The chart is overlaid on a dark blue background with a grid.

# Small & Micro Cap Review

## Winter 2015

**Gordon Capital Pty Ltd**

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# COLLABORATE CORPORATION LIMITED

## Emerging player in the huge peer-to-peer market

### DIRECTORS

Chris Noone, CEO/Executive Director  
 Adrian Bunter, Non-Executive Director  
 Domenic Carosa, Non-Executive Director

### MARKET DATA

ASX Code: CL8  
 Current Price(31/7/15): \$0.025  
 52 week Share Price Range: \$0.01-\$0.04  
 Market Capitalisation: \$7.7 million  
 Enterprise Value: \$7.1 million

### CAPITAL STRUCTURE

Shares on Issue: 309 million  
 Options: 162 million

### FINANCIAL SUMMARY

\$000 Y/E June	2012-13 (A) <sup>②</sup>	2013-14 (A) <sup>②</sup>
Operating Revenue	3,313	3,398
EBITDA	-1,747	-1,611
Net Profit <sup>①</sup>	-1,711	-1,448
Net Debt	1,040	301
Shareholders' Equity	1,295	3,589
Total Assets	4,128	6,091

<sup>①</sup> Based on continuing operations  
<sup>②</sup> Traded as Qanda Technology until Dec. 14

### MAJOR SHAREHOLDERS

Future Capital Dev. Fund 9.5%  
 Bellite Pty Ltd 3.9%  
 Dominet Digital Corporation Pty Ltd 2.6%

### CORPORATE DETAILS

Level 1, 2 -4 Kings Cross Road  
 Potts Point, NSW, 2011  
 Ph: (02) 8889 3641  
[www.collaboratecorp.com](http://www.collaboratecorp.com)

### KEY POINTS

- Collaborate operates peer-to-peer market places whereby individuals and corporations transact with each other directly for mutual benefit. Assets that would otherwise be idle are monetised using online technologies allowing owners and renters to transact with confidence.
- Experienced management team with expertise in the Internet, mobile technology and marketing sectors.
- According to the Massachusetts Institute of Technology, the peer-to-peer exchange of goods and services represents a potential \$US110b market. With minimal competition in the Australian market, Collaborate is well placed to exploit the huge opportunities available and mirror successful US companies such as Airbnb, Uber and Getaround.
- The key to success in peer-to-peer markets is the building of trust between renters and users. Collaborate's PeerPass proprietary technology for verifying and managing online reputation sets the standard for building trust and provides substantial leveraging opportunities across multiple product categories.
- With increased marketing and the revamped website of DriveMyCar, transaction volumes are expected to accelerate over the next 12 months. Similar trends are expected at MyCaravan and Rentoid as the businesses take advantage of marketing opportunities.
- For the 6 months to 31 December 2014, Collaborate reported an operating cash out flow of \$948K, which was offset through capital raisings resulting in a net cash position of \$567K at the end of the period.
- Collaborate is expected to reach profitability and achieve a cash flow positive position in FY2017. The company may seek additional funding for expansion purposes in about 6 months.
- Within 2-3 years, Collaborate has an aspirational revenue target in excess of \$20m and an EBITDA of \$4-\$5m to be achieved organically and through acquisitions.

## INVESTMENT PROPOSITION

*With the technology base and systems in place, the upside for investors is significant in the high growth peer-to-peer market.*

With the technology base and systems in place, Collaborate is very well placed to exploit the huge opportunities that exist in the peer-to-peer market. The PeerPass proprietary verification system developed by Collaborate, gives it a distinct competitive advantage when entering into new peer-to-peer categories and also offers significant leveraging opportunities into the mass market.

Collaborate has an entrepreneurial management team with experience in the Internet, mobile technology and marketing sectors. With a current market capitalisation of only \$8m, compared to other leading US peer-to-peer businesses such as Getaround (valuation \$260m), UBER (valuation \$53b) and Airbnb (valuation \$13b), the upside potential for investors in Collaborate is significant as the business model matures and scale builds.

## BUSINESS OVERVIEW

*Collaborate's business model is now clearly focused on the high growth peer-to-peer market.*

Collaborate operates peer-to-peer market places whereby individuals and corporations transact with each other directly for mutual benefit disrupting traditional business models. Assets that would otherwise be idle are monetised using online technologies which allow owners and renters to deal with each other directly and build trust.

Collaborate currently operates in three peer-to-peer market categories of motor vehicles (**DriveMyCar**) caravans (**MyCaravan**) and general household items (**Rentoid**).

Marketboomer an Internet-based procurement and materials management solution for the hospitality industry in which Collaborate held a 43% interest was recently sold. Collaborate is now solely focused on its core high growth peer-to-peer businesses.

*DriveMyCar is focused on the 1 week to 1 year rental periods.*

**DriveMyCar** was acquired in February 2014 being Australia's first and largest peer-to-peer car rental service and was relaunched in March 2015. The vehicle rental market is valued at around \$3b and there is a clear gap in the 1 week to 1 year rental period where there is a large potential customer base. DriveMyCar is focused on this market with the majority of its rental customers in the 7-60 day time period. The only significant competitors in Australia are the major car rental companies such as Hertz and Thrifty.

DriveMyCar is a proven business model with its platform connecting drivers with vehicle owners monetising unused capacity of private vehicles. The business is highly scalable as vehicles can be located anywhere in Australia. There are currently around 14,500 registered drivers and owners across Australia. Comprehensive insurance is provided for the DriveMyCar platform which essentially locks users into the platform.

DriveMyCar typically charges between \$30-\$60 per day for a vehicle depending on the vehicle make and model. The owner receives between 50%-60% of the total rental, which generally equates to around 40% of the value of the vehicle over a 12 month period representing an excellent return. The remaining 40%-50% of the total rental is retained by Collaborate which covers insurance and administration costs. The average rental contract value is \$1,894 and the average rental days realised is 47.

*MyCaravan and Rentoid essentially start-up businesses operating in high growth markets.*

**MyCaravan and Rentoid** were both acquired in 2014 and are essentially start-up businesses undergoing configuration changes. MyCaravan is the largest peer-to-peer caravan rental service with a current supply of around 60 caravans available for rental. There are in excess of 500,000 caravans and camper trailers in Australia. Rentoid is Australia's largest online rental marketplace for anything and is in the process of

introducing a revised business model.

Collaborate screens customers before and after each transaction using its proprietary PeerPass technology which was developed over a five year period. This technology sets the standard for building online trust in peer-to-peer market places by providing social media verification, identity verification, credit checks and secure online payments. It clearly gives Collaborate a competitive advantage by acting as a identity and verification intermediary with the provision for comments and feedback after each transaction.

### **LATEST PROFIT RESULT AND SHORT TERM EARNINGS OUTLOOK**

For the 6 months to 31 December 2014, Collaborate reported a net loss of \$1.06m (\$882,000 loss) on a 12.7% increase in revenue to \$1.9m. Net assets increased 28% to \$4.6m. During that period, the company raised \$1.66m through various equity issues, which allowed for the repayment of \$225,000 in debt, \$100,000 in convertible notes, the settlement of outstanding creditors and the re-development of the DriveMyCar website. We expect Collaborate to reach profitability and become cash flow positive within the next twelve months, aided by increased brand marketing and the PeerPass reputation platform. Corporate costs will also be lower following the recent disposal of Marketboomer.

### **BUSINESS DRIVERS AND GROWTH PROFILE**

Collaborate is positioning itself to 'ride the wave' of the huge growth in the peer-to-peer market which is expected to be at least a \$US110b market over the next few years according to the Massachusetts Institute of Technology transforming the way we live, work and consume. The peer-to-peer market is now where social media was a few years ago and is growing rapidly. According to *Time*, the peer-to-peer market has the potential to change the world and disrupt traditional business models. Private individuals are effectively becoming both consumers and producers.

According to *Collaborative Lab*, there are three enablers which explain why these changes are happening. First, is the large number of online technologies which can track and monitor the usage of idle assets. Second, the social networks that are emerging allow people to leverage existing trusted networks or build trust between various individuals. Third, the shifting acceptance of access over ownership – the idea that it is often just as good to have reliable access to something rather than own it – all the benefits without the maintenance.

In Australia, the sharing economy is growing with brands such as Airtasker, TuShare, GoGet, and MamaBake, which is changing the way consumers engage with products and services. The growth of these brands and others that are evolving such as Collaborate will continue to see a shift in consumer values from ownership to access.

**The key to success in the peer-to-peer market is building trust and maximising the value and number of transactions.** When a high level of trust is established a large number of assets become available across the mass market and a premium can be charged for access to a high reputation customer base. Asset owners are then confident that they will receive a good return and their assets will be secure.

The PeerPass proprietary trust and reputation platform developed by Collaborate gives it a clear competitive advantage and sets the standard for building trust in peer-to-peer markets. Being totally transportable, PeerPass allows for the rapid access of active users across many other peer-to-peer product categories potentially monetising billions of under utilised assets. The technology can also be leveraged to address opportunities outside of the peer-to-peer market effectively creating a new business unit.

#### **DriveMyCar**

With the car rental market valued at around \$3b and with a clear gap in the 1 week to 1

**Collaborate's PeerPass screening technology gives it a competitive advantage.**

**Still incurring losses but profitability and cash flow expected to accelerate rapidly over the next few years as the business model matures.**

**The peer-to-peer market is a global mega-trend exploiting the billions of dollars of idle assets.**

**The key to success in the peer-to-peer market is building trust.**

**PeerPass technology enables rapid access of other per-to-peer categories.**

year rental period there is a large potential customer base and with limited competition, the upside potential is significant. The car rental companies generally focus on lesser time periods (1 day-1week) and the leasing companies focus on longer periods (1 year+) and in any case they can be up to 60% more expensive. DriveMyCar also provides a wider choice of vehicles ranging from a Toyota Yaris to a Porsche 911. Collaborate launched a new website including functionality improvements in March 2015 and a major advertising and PR campaign commenced in April 2015, which are both having a positive impact on transaction numbers (refer chart below).

***DriveMyCar has strong upside with limited competition.***

	<b>Mar 2015 FYTD Average</b>	<b>May 2015</b>	<b>Growth %</b>
Users	18,701	44,100	135%
New Car activations	35	61	76%
Calculator enquiries	520	923	77%

DriveMyCar currently generates transaction value of around \$1m per annum. To reach profitability and become cash flow positive which is expected to occur in twelve months, securing bulk supply of vehicles is a key priority with key targets being corporate fleets and leasing companies. DriveMyCar signed a supply deal with McMillan Shakespeare's interleasing division in late 2014 and further corporate deals are in discussion. At the end of June 2015, Collaborate had over 350 available vehicles with the break-even point for the business being about 700 vehicles. Collaborate launched a small supply focused advertising campaign in late April which improved the rate of monthly vehicle acquisition by 76% and should have a positive impact on vehicle supply over the next twelve months. Other initiatives in train include the provision of insurance that enables owners to replace their existing policies and the launch of a renter focused advertising campaign.

***Securing supply of vehicles is a key priority with corporate fleets a major focus.***

#### **MyCaravan**

With 500,000+ caravans and trailers in Australia and with the retail market for caravans valued at \$3b per annum and motor homes at \$182m rental per annum, the growth prospects are significant. The key objectives are to rebuild the website and integrate with the back end to unlock efficiencies; increase advertising both online and offline; secure corporate partnerships and fully integrate with PeerPass to increase trust and transaction volumes. MyCaravan is also introducing a 'no-tow' option which enables owners and renters to deliver their caravan to a site on behalf of the renter. As MyCaravan has caravans located around Australia they can choose to rent a caravan near their destination instead of towing it hundreds of kilometres. This represents a unique competitive opportunity as commercial operators are limited to operating from a central depot, not the thousands of locations that are possible with MyCaravan's peer-to-peer approach. The new MyCaravan brand and advertising campaign was launched in June 2015, which should impact positively on transaction volumes in coming months.

***Caravan market is large and offers strong growth potential.***

#### **Rentoid**

A revised business model will be introduced and at this stage no marketing has been undertaken. The integration of PeerPass will establish traction and unlock significant cost savings. We expect this business to make steady progress over the next twelve months in what is a large potential market with limited competition.

***Rentoid expected to make steady progress over the next twelve months.***

***The upside potential is huge with the ability to expand into many different categories.***

As Collaborate builds scale and transaction volumes increase profitability should accelerate. Within 2-3 years, Collaborate has an aspirational revenue target in excess of \$20m and an EBITDA between \$4-\$5m. While there are no guarantees these targets will be met provided Collaborate execute well with the size and growth of the peer-to-peer market and with minimal competition, we believe it is achievable.

## FINANCIAL SUMMARY

INCOME STATEMENT			
(\$'000)	HY13 <sup>②</sup>	HY14 <sup>②</sup>	HY15
<b>Revenue</b>	<b>1,591</b>	<b>1,723</b>	<b>1,942</b>
<b>EBITDA</b>	<b>-169</b>	<b>-715</b>	<b>-1,086</b>
Depreciation	-	-85	-138
Finance Cost	-42	-37	-22
<b>Pre Tax Profit</b>	<b>-211</b>	<b>-837</b>	<b>-1,246</b>
Tax	12	-45	191
<b>Net Profit<sup>①</sup></b>	<b>199</b>	<b>-882</b>	<b>-1,055</b>

① Based on continuing operations

② Traded as Qanda Technology until December 2014

BALANCE SHEET			
(\$'000)	Dec 2013	June 2014	Dec 2014
<b>Current Assets</b>			
Cash & Equivalents	432	220	764
Receivables	916	1,377	1,351
Other	53	25	32
	<b>1,401</b>	<b>1,622</b>	<b>2,147</b>
<b>Non-Current Assets</b>			
Plant & Equipment	39	48	43
Intangibles	2,179	4,421	4,418
Other	2	-	-
<b>Total Assets</b>	<b>3,621</b>	<b>6,091</b>	<b>6,608</b>
<b>Current Liabilities</b>			
Payables	529	1,013	700
Debt	299	400	75
Other	1,023	885	1,003
	<b>1,851</b>	<b>2,298</b>	<b>1,778</b>
<b>Non-Current Liabilities</b>			
Debt	988	122	122
Other	70	82	97
	<b>1,058</b>	<b>204</b>	<b>219</b>
Shareholders' Equity	712	3,589	4,611
<b>Liabilities &amp; Equity</b>	<b>3,621</b>	<b>6,091</b>	<b>6,608</b>

CASH FLOW			
(\$'000)	HY13	HY14	HY15
Net Cash Flow From Operations	-41	-176	-948
Net Cash Flow From Investing	784	-31	-7
Net cash Flow From Financing	-42	81	1,481
<b>Net Change In Cash</b>	<b>701</b>	<b>-126</b>	<b>526</b>

KEY RATIOS			
(%)	HY13	HY14	HY15
Revenue Growth	-6.3	8.2	12.7
EBITDA Growth	37.6	-323.1	-52.0
EBITDA Margin	-10.6	-41.5	-60.0
Net Debt/Equity	19.0	120.0	-12.2
Intang./Equity	130.0	306.0	95.8

### Commentary

Collaborate's financial position was considerably strengthened during first half 2015 through capital raisings of \$1.6m (entitlement issue \$814,000, placement \$750,000, share purchase plan \$75,000) with the company now in a net cash position. Collaborate has since raised a further \$1.6m through a series of placements with attached options. The issues were very well supported by institutional and sophisticated investors.

Collaborate is now in a position to advance the evolution of its proprietary trust and reputation platform in order to launch into new peer-to-peer markets and increase marketing and PR activities for the DriveMyCar website. It also has additional funds for general working capital purposes.

While Collaborate has adequate funds to meet its short term requirements given that it is not expected to reach a cash flow positive position for around twelve months and to further grow the business and undertake acquisitions, we expect the company to undertake another capital raising possibly within the next 6 months. This will, of course, depend on market conditions at the time.



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