



Kabuni Ltd (KBU.ASX)

Seeking a niche in multi-billion dollar interior design market

Event:

- We initiate coverage on Kabuni Ltd (KBU).

Investment Highlights:

- Connecting homeowners, designers, and vendors.** KBU provides omni-channels to connect home décor and furnishing vendors, interior designers, and homemakers together. The core of the business is the Kabuni online and mobile saas marketplace. Designers and homeowners can create and browse image rich inspiration boards, be matched, engage, and ultimately transact with the homeowner purchasing products.
- Profit share model.** KBU's revenue model results in a profit share between itself and the designer, with KBU typically pocketing about 33% of the retail price of goods sold, the designer 15%, a charity 2%, and vendors the balance.
- Kabuni represents a complementary channel – not a substitute - for designers to earn income** relatively passively, while for homeowners it is an aggregated marketplace where a variety of products recommended can be purchased as single order, saving time and money. The company has also opened a design studio in Vancouver as part of its omni-channel experience
- US\$68.5b market just in US and Canada.** While KBU is open to designers globally to register on its platform, it is currently only serving homeowners in the USA and Canada. The size of these markets for furnishings and home décor recommended by interior designers is US\$68.5b. The market is highly fragmented and a number of online channels exist, each with its unique features and approach, ranging from giants such as Houzz, Etsy, and Pinterest to more focused niche players such as Laurel & Wolf and HomePolish.
- We expect KBU to carve out its niche in the market based on themes of curation, engagement, only interior design, and inspiration.** Just a sliver of the US\$68.5b market will be highly attractive and profitable for KBU. Our assumption of KBU capturing just 0.23% of the market equates to transacting US\$158M p.a. of goods on the platform, akin to KBU net sales of ca. US\$52M pa.

Earnings and Valuation:

- Our risked valuation of KBU is \$0.44/share.** We have adopted a DCF approach assuming only 2.3% of designers globally register on KBU and of these, only 10% of their business is transacted on KBU. This is equivalent to just 0.23% of the total market spend. We have applied a 60% discount to our DCF to arrive at the risked valuation to account for early stage business risk.
- We do not forecast profit in the next few years as KBU endeavours to grow** and build scale, with most of the value of the company being in later years. We believe revenue will be the focus in the immediate years. We forecast net sales of \$0.6M, \$1.7M, and \$4.7M in FY17e, FY18e, and FY19e.

Recommendation:

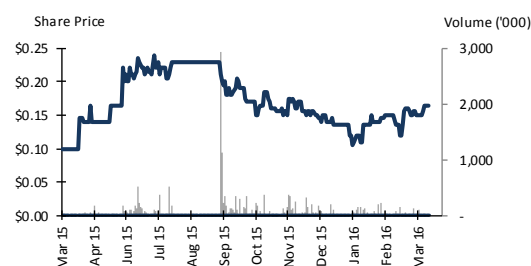
- We initiate on KBU with a Speculative Buy recommendation and 12-month price target of \$0.44/share**, based on our risked valuation.
- Catalysts include** growth in numbers of registered designers, monthly active users, and revenues; and potential new markets.

Recommendation	Speculative Buy
Previous	n/a
Price Target	\$ 0.44
Previous	n/a
Share Price (A\$)	0.140
ASX Code	KBU
52 week low - high (A\$)	0.10-0.245
Valuation	\$0.44/share
Methodology	Risked DCF
Risk	Very High
Capital structure	
Shares on Issue (M)	130.3
Performance shares (M)	38.1
Options (M)	18.7
Market Cap (A\$m)	18.2
Net Debt/(Cash) (A\$m)	-4.2
EV (A\$m)	14.0
12mth Av Daily Volume ('000)	68.0

Y/e Jun Forecasts	2016e	2017e	2018e	2019e
Revenue A\$m	0.1	0.6	1.7	4.7
Revenue growth	nm	976%	210%	170%
EBITDA A\$m	-3.4	-2.9	-1.8	-1.8
NPAT A\$m	-1.8	-2.5	0.1	0.1
EPS c	-2.3	-2.0	-1.2	-1.3
EV/sales	nm	31.6	10.2	3.8

Board	
Neil Patel	Managing Director
Tony King	Executive Chairman
Nik Ajagu	Non Executive Director
Nathan Sellyn	Non Executive Director
Matt Hehman	Non Executive Director

Share Price Graph



Analyst: Mark Fichera +61 2 9993 8162
mark.fichera@fostock.com.au

Foster Stockbroking is engaged in providing corporate services to KBU for which it has earned fees and continues to do so. Services include, but are not limited to, capital markets advisory, institutional research, and marketing roadshows.

**Kabuni Ltd (KBU)**

Full Year Ended 30 June

Profit and Loss A\$M	2016e	2017e	2018e	2019e	Financial Metrics	2016e	2017e	2018e	2019e
Sales revenue	0.1	0.6	1.7	4.7	Sales growth %	nm	976%	210%	170%
Other revenue	0.0	0.0	0.0	0.0	EPS growth %	nm	nm	nm	nm
Operating Costs	3.5	3.5	3.5	6.5	EBITDA margin	nm	nm	nm	nm
EBITDA	-3.4	-2.9	-1.8	-1.8	EBIT margin	nm	nm	nm	nm
D&A	0.1	0.1	0.1	0.2	Gearing (ND/ND+E)	nm	nm	nm	nm
EBIT	-3.5	-3.0	-1.9	-2.0	Interest Cover (EBIT/net int)	nm	nm	nm	nm
Net Interest exp / (income)	-0.1	-0.1	0.0	-0.1	Average ROE %	nm	nm	nm	nm
Profit before tax	-3.5	-3.0	-1.8	-1.9	Average ROA %	nm	nm	nm	nm
Tax exp / (benefit)	0.0	0.0	0.0	0.0	Wtd ave shares (M)	130	130	136	136
Rep. NPAT	-3.5	-3.0	-1.8	-1.9	Wtd ave share diluted (M)	149	149	149	149
Significant items	0.0	0.0	0.0	0.0					
NPAT attributable reported	-3.5	-3.0	-1.8	-1.9					
EPS diluted (c)	-2.3	-2.0	-1.2	-1.3					
Cashflow A\$M	2016e	2017e	2018e	2019e	Valuation multiples	2016e	2017e	2018e	2019e
EBITDA	-3.4	-2.9	-1.8	-1.8	P/E x	nm	nm	nm	nm
Change in WC	0.0	0.7	-0.1	0.0	EV/EBITDA x	nm	nm	nm	nm
Tax paid	0.0	0.0	0.0	0.0	EV/EBIT x	nm	nm	nm	nm
Other	0.7	0.7	0.7	0.7	EV/sales x	nm	31.6	10.2	3.8
Net interest	0.1	0.1	0.0	0.1	Dividend yield %	0	0	0	0
Operating Cashflow	-2.7	-1.5	-1.1	-1.0					
Purchase of PP&E	-0.5	-0.5	-0.5	-0.9					
Investing Cashflow	-0.5	-0.5	-0.5	-0.9					
Equity proceeds	0.1	0.0	5.0	0.0					
Proceeds from borrowings	0.1	0.0	0.0	0.0					
Repayment of borrowings	-0.6	0.0	0.0	0.0					
Financing Cashflow	-0.4	0.0	5.0	0.0					
Net Cashflow	-3.6	-2.0	3.4	-1.9					
Balance Sheet A\$M	2016e	2017e	2018e	2019e	Valuation	A\$M	A\$/share		
Cash	3.1	1.1	4.4	2.5	Enterprise value to 2031	52	0.35		
Receivables	0.7	0.0	0.1	0.4	Terminal value	102	0.68		
PPE	0.7	1.1	1.5	2.2	Enterprise value total	154	1.03		
Intangibles	0.1	0.1	0.1	0.1	Net cash(debt)	4	0.03		
Total Assets	4.6	2.3	6.2	5.2	Cash from options*	5	0.03		
Accounts payable	0.3	0.3	0.3	0.5	Equity value	163	1.09		
Debt	0.1	0.1	0.1	0.1	Discount factor for risk	60%	60%		
Other	0.0	0.7	1.4	2.1	Equity value risked	65.1	0.44		
Total Liabilities	0.4	1.1	1.8	2.8	Diluted shares used*	149			
Reserves and capital	21.4	21.4	26.4	26.4	WACC	10%			
Retained earnings	-17.2	-20.2	-22.0	-23.9	Terminal growth rate	2%			
Total Equity	4.2	1.2	4.4	2.5					

*Includes options in-the-money at valuation and excludes performance shares.

Shares on issue	M
Ordinary shares	130.3
Options	18.7
Performance shares	38.1
Fully Diluted	187.1
Substantial shareholders	Interest
Neil Patel	15.4%
J & J Bandy	5.0%

Source: Company; Foster Stockbroking estimates



KABUNI - CONNECTING BUYERS WITH HOME DESIGNERS

KBU connects interior designers, homeowners, and vendors in an e-commerce marketplace.

- Kabuni Ltd (KBU) is an ASX listed company which brings interior designers, product vendors, and customers together in an interior design e-commerce marketplace to transact. The company's main operating subsidiary is headquartered in Vancouver, Canada where it has 25 staff, and ten contractors in India.
- The core of KBU is its Kabuni marketplace which is underpinned by a SaaS platform interface connecting interior designers with homeowners as well as product vendors. Kabuni facilitates e-commerce to design rooms, homes, and similar projects, with clients having the opportunity to choose from multiple home designers and decorators. It also brings in the product suppliers that designers will recommend and customers will purchase.
- Kabuni currently serves consumers and sources merchandise only from USA and Canada, but engages designers from anywhere in the world. The company is seeking to deliver an omni-channel presence. This means not just via the web which both the designer and the customer can access, communicate, and transact, but also through physical presence. As such KBU recently opened a community design studio in Vancouver.

Background

- Prior to its rebranding in September 2015, KBU was called Whole New Home (WNH). WNH originated from the reverse takeover of PDT Technologies Inc (PDI) by Magnolia Resources which was announced May 2015 and completed in August that year.
- PDI developed the WNH brand and core website in beginning 2014, on-boarding the first group of designers as both beta testers and advisory groups in mid 2014, and soon after began signing up Canadian home décor suppliers.

THE KABUNI COMMUNITY

- The KBU marketplace comprises three participants designers, homeowners, and vendors.

Designers

- KBU is targeting interior designers, decorators, and home stylists. They are primarily female, aged between 25 and 45, working mainly full-time, and educated. Industry sources suggest about 40% are established business owners with 4-5 clients per month, with average commission of US\$40-\$50k p.a. over \$350k-\$400k expenditure.

Homeowners

- Homeowners, or consumers, purchase products recommended by interior designers. Homeowners undergoing relocation or renovation occurrences are a prime customer segment, as these events result in the highest household décor expenditure.

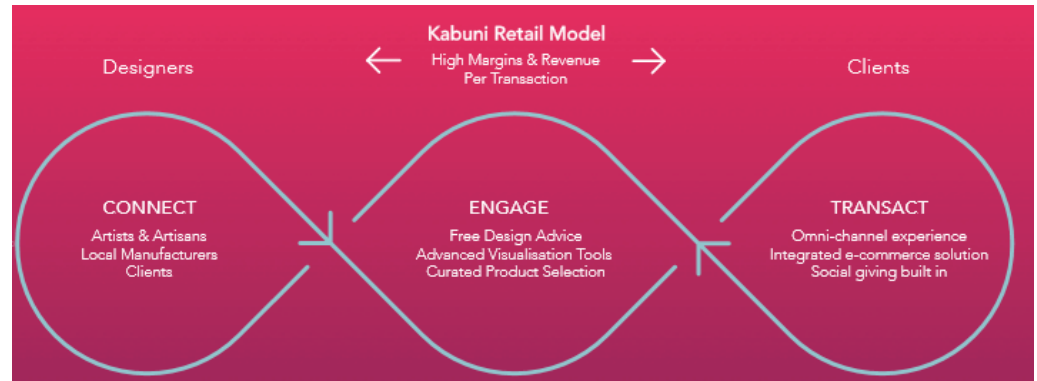
Vendors

- Goods are curated by KBU's products team and are sourced from vendors such as manufacturers, artists, and artisans. Products are initially focused on key room areas like kitchen, bedroom, living, and dining. Growing and improving the selection of products is a major focus for KBU. Over the next 12 months it plans to expand its product range to cover outdoors and children's rooms. Vendors include Surya, Zuo, Style In Form, LH Imports, Trek Décor, RenWil, modway, Korhani Home, Small World, Nuevo, Imax Worldwide Home, and Urban Cultivator. Many of these vendors sell through different channels.

KBU curates products from manufacturers, artisans, and artists.

HOW KABUNI WORKS

Figure 1: The Kabuni Model



Source: Company.

- KBU's principal channel is its online and app marketplace Kabuni, where designers, homeowners, and vendors can profile, market, search, communicate, and transact. Key elements of how it works are:
- Registration and sign-in.** The first step is for the homeowner and designer to register for free with Kabuni via its website online or its mobile app. Vendors connect via KBU's product team who vet and sign them manually. Users can register with either email or social media and provide a profile. KBU allows integration with facebook for sign-in, which facilitates sharing on social media.
- Creating the Inspiration Board.** The interior designer can build their profile and promote themselves to homeowners not only by text describing themselves but by the creation of *Inspiration Boards*. Inspiration Boards are screen-pages consisting of a number of various pictures, products, images, ideas, and external links that can showcase a designer's style, curation, and design ideas. Multiple boards can be created on themes such as colour or room type, and consist of a selection of home décor products presented on Kabuni by the vendors. These include art, handicrafts, and furnishings.
- Homeowners can also create their own inspiration board.** The homeowner can include images from their own home, environment, or from any number of sources. This can help in them finding, and eventually communicating their style to, a designer.
- Discover and search a designer.** Designer's Inspiration Boards can be viewed by homeowners, and it is through these that homeowners can discover designers and products. Kabuni's technology can match the style of the customer with those designers that fit, using both images from Inspiration Boards, as well as text describing the designer's and homeowner's style interests and preferences - e.g. rustic, clean, cozy, formal, classic or eclectic. Kabuni then offers the homeowner a number of relevant designers, prioritising results to best align with a homeowner's preferences.
- Choose a designer.** Once a shortlist of designers has been displayed to the homeowner, he/she can then select their preferred designer. Alternatively the homeowner may choose a designer based on viewing inspiration boards that caught their eye. Matches are free, and once matched, in-app messages are set up. The ability to opt out is also provided.
- Communicate with designer.** The designer and homeowner will then engage in dialogue which can be viewed and filtered as a stream. Communication tools enable easy dialogue and are built around monitored messaging system. Homeowners can also follow a particular designer and choose to receive push notifications.

**Inspiration Boards
allow designers to
promote themselves.**

**Designers are matched
to homeowners.**



Designer selects products for client to purchase.

- **Designer selects products.** The designer can filter and curate merchandise, add them to the board for a project, and look, and see the total cost of the project. Home furnishing and décor products are selected progressively from the full catalogue (which the homeowner cannot see). KBU's product team manages inventory, adding, modifying, or removing products from vendors, according to attributes, quantities, and images, while designers can customize products with input from clients e.g. colour, size, quantity. Essentially the designer acts as facilitator, affiliate, and salesforce of KBU, selling the manufacturers' products.
- **Homeowner purchases goods.** Once the homeowner is satisfied with the designer's election and recommendation, they can then purchase the products as a single order via Kabuni's checkout. Goods ship directly from the manufacturer(s) and are delivered to the customer by third party shipping providers. Premium delivery services are available, which include features such as unpacking and assembly.
- **Charity donation.** This will occur once the business generates positive cashflows. KBU will donate a percentage of its profit to charitable organisations dedicated to combatting homelessness. KBU selects eligible charities and, through the platform, provides customers with the option of choosing the charity that will receive the donation at check out.

HOW KBU AND DESIGNERS MAKE MONEY

Profit share arrangement between KBU and designers.

- KBU pays wholesale prices set by suppliers for products, and sets their retail price on the platform. Once a consumer purchases products recommended or displayed by a designer, the vendor receives the wholesale price, while KBU shares a percentage of the profit above the wholesale price with the designer.
- The designer can reduce their share of profit by discounting the price so as to induce the customer.

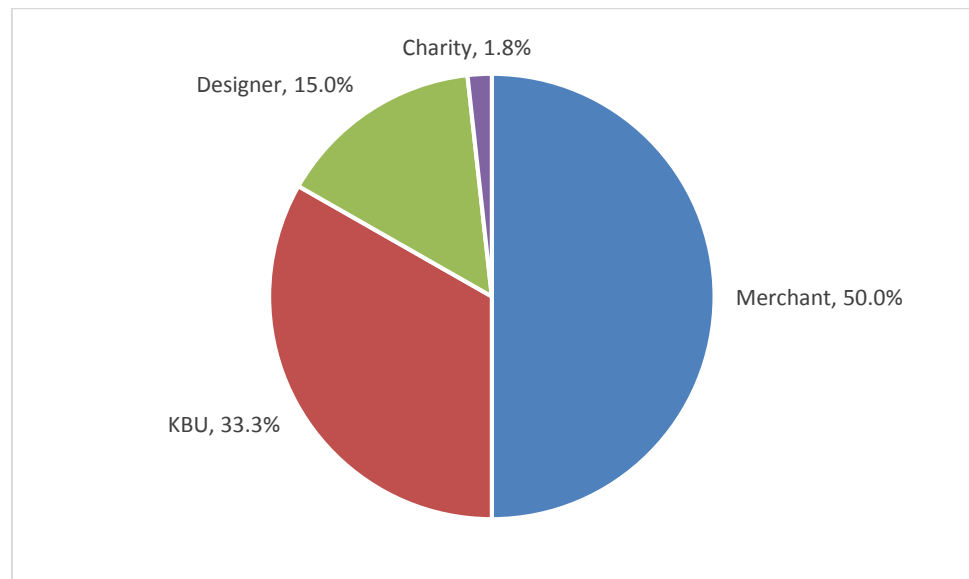
Example of a typical transaction on Kabuni:

A customer decides to purchase a \$1,000 worth of products recommended by a designer from a vendor. The \$1,000 is typically broken down as follows:

- KBU pays \$500 to the manufacturer (50%), it effectively being the wholesale price.
- KBU realises a gross profit of \$500;
- The designer receives a pre-determined percentage of KBU's gross profit, currently set at 30%, while 5% of gross profit is donated to a charity: So:
 - \$150 is paid to the designer, being 30% of KBU's gross profit;
 - \$17.50 paid to a chosen charity. 5% of KBU's profit;
 - \$332.50 is paid to KBU.
- **Nil inventory risk.** No inventory risk is borne by KBU, but purely by the vendor, since it employs a drop-ship model and the products shipping directly from the vendor.

- **Potential for other revenue sources in future.** KBU may examine revenue sources outside transactions at a later stage once the business is more developed. This may include fees for designer registrations and/or access to premium features and promotions, as well as advertising.

Figure 2: Approximate Split of Product Sale Transacted on Kabuni



Source: Company; Foster Stockbroking estimates.

WHAT ARE KABUNI'S BENEFITS FOR USERS?

For Homeowners

- **Access designer and products on single marketplace, saving time and streamlining the shopping process.** The homeowner visits a single destination to search, communicate, plan, price, and transact home décor decisions. There is no need to leave the app or website, which can save time and simplify the process of collecting design ideas.
- **Source numerous ideas and inspiration and follow through.** The consumer can browse numerous home improvement ideas and designer offerings, by viewing KBU's inspiration boards. Those boards that appeal to a homeowner can be acted upon, by contacting and engaging the designers responsible for them.
- **Access to free professional advice.** Homeowners can consult with designers for free.
- **Single check –out across multiple manufacturers and suppliers.** Homeowners can purchase products from multiple vendors via a single checkout and single order and single shipping price. This enables savings in time and costs, easier than having to purchase individually from multiple vendors.

For Designers

- **Promote their style and brand to consumers.** Designers can showcase their style and promote themselves via the Inspiration Boards to customers.
- **Create a personalised profile.** The designer also has their own profile within Kabuni where homeowners can arrive via clicking through on inspiration boards.
- **Simplified payments and logistics.** Kabuni manages the collection and making of payments, and logistics, for the designers' design projects.
- **Broaden marketing channels and grow client base.** By creating boards and profiles on Kabuni, designers are gaining exposure to clients outside their local area or home website to across all

Clients offered a single checkout & order across different vendors.



Kabuni generates “passive” income for designers, complementing their existing business.

of USA and Canada. Kabuni represents an additional channel to complement the designer’s own website or studio.

- **Access to vast array of products and vendors.** Designers gain access to new vendors whose products may match their ideas and style. These can not only be utilised on Kabuni, but also on their own website or studio.
- **Generate income “passively” via an alternative channel.** Once boards and profiles are created on Kabuni, designers can attract consumers’ attention while working on their day-to-day activities at their studio or web page. Some designers may make a sale by having little or no engagement with a homeowner on Kabuni, should the latter decide to purchase products by simply viewing the designer’s inspiration board. **The boards are a 24/7 sales and marketing customer acquisition tool that complements, not substitutes for, the designer’s business.**

For Vendors

Kabuni generates “passive” income for designers, complementing their existing business.

- **Enhanced product and brand exposure on a global platform.** Showcasing their products on Kabuni allows artisans, vendors, and manufacturers exposure to designers from all over the world.
- **Sales platform.** By designers placing products on inspiration boards or recommending them to homeowners, the vendor can achieve sales via Kabuni.
- **New distribution channel.** Kabuni represents an attractive alternative to the supplier’s existing channels whether they be a bricks-and-mortar premises, or their own and other third party websites.
- **Access to both designers and homeowners on same platform.** The vendor can extract a degree of economy of scale by having both homeowners and designers on the same platform, allowing for streamlined administration, marketing, communication, logistics, and e-commerce.

KABUNI NOW COMMERICALLY LIVE WITH LAUNCH OF APP VERSION 1.6

Introduction of checkout allows first revenues to be generated

Recent launch of app version 1.6 now enables homeowners to order and buy on Kabuni, enabling KBU and designer to earn revenue.

- The Kabuni mobile app on iOS in the Apple store was soft-launched to select interior designers at the Interior Design Show West (IDSwest) in September 2015, and in February 2016 app version 1.5 was launched allowing designers to search through total SKUs and add products to boards.
- **Version 1.6 was launched on 31st March 2016, and this possesses the e-commerce checkout function.** This will enable homeowners to order and pay for their desired product, and allow KBU, designers, and vendors to begin generating revenue from the Kabuni app. The checkout feature adds to the app’s existing functionalities of designer onboarding, Inspiration Boards creation, style and client matching, and product discovery and selection functions.
- The app is available to download for free in Canada and USA, with Australia, UK, and other countries to follow soon after. KBU expects a web version of the app, allowing other platforms such as desktop and Android to use Kabuni, to follow later in CY2016.

**DESIGN STUDIO - A PHYSICAL SPACE TO ENGAGE & ENHANCE THE KABUNI BRAND**

Design studio a physical space to build the Kabuni brand, and engage designers and homeowners in physical surrounds.

- KBU opened its first flagship studio in Coal Harbour, Vancouver, in March 2016, occupying a 300sqm lease and designed by an award winning architect firm.
- **Builds the Kabuni brand.** The design studio is KBU's physical presence, complementing its online presence, and important in establishing relations with the designer community. Online tech giants such as Amazon, Apple, and Microsoft have established bricks and mortar stores to promote their products as well as their brand. The design studio is expected to drive transactions, and increase awareness of business among design profession.
- **Provides designers with another channel to engage with clients.** KBU's design studio is where designers can market and showcase products and ideas to consumers. The studio can house a rotating roster of designers that can provide samples and share workspaces. The interior layout encompasses multiple meeting spaces. Community events can also be organised.
- **Homeowners can visualise products, including via 3D holography.** The studio serves homeowners not only by connecting them in person with designers, but with home décor products and furnishings. The studio's features are highlighted by use of the innovative HoloMAX 3d technology (from H Plus Technologies), a unique three-dimensional and holographic retail experience for design professionals and consumers. The HoloMAX is employed in the studio's "Dream Room", which uses multiple projectors to allow designers and clients to design a room by adding home decor and furnishings selected from KBU's product catalogue.
- Hundreds of different items can be visualised in HoloMAX as 3D holograms. The designer can move and place items in the room with the tap of a finger. The immersive experience provides the client with the ability to visualise the designer's ideas before ordering products, and represents a major innovation in interior design.
- **Other technology.** The studio also incorporates revolutionary "Touch Tables" and a "Touch Wall", both products from interactive specialist Ideum. These large multi-touch devices introduce entirely new medium for designers to interact with clients.

Potential Studios in other Canada and US locations once Vancouver validated

- We expect KBU will monitor the Vancouver design studio's impact on the designers, vendors, and homeowners that use and engage with it, and measure their performance against other users on the Kabuni platform. We anticipate that if there is increased sales activity among those using the studio, then this validation will prompt KBU to examine gradually opening more studios in retail locations of major cities across the USA and Canada, especially where significant designer communities exist.



MARKETING

Various marketing initiatives include partnering with design bodies and using key design influencers.

- KBU is employing a number of initiatives to acquire designers and consumers:
- **Leverage social media.** KBU's platform is designed to facilitate social sharing of Inspiration Boards and leverage viral marketing. There are social tools built into the platform which allow sharing on Facebook, Twitter, and Instagram.
- **Giving back.** The donation of a percentage of KBU's profits to charities and the involvement of the client in choosing the recipient forms another part of the company's plank in branding itself, displaying a social awareness as well as tech savviness.
- **Online ad spend.** E.g. search engine optimisation and marketing, and display banners.
- **Using key design influencers.** Key design industry professionals have provided exclusive content for Kabuni and these have a significant following across the designer community globally. KBU launched its Ambassador Program in February 2016 targeting high profile designers in key markets such as New York, London, Los Angeles, Austin, Vancouver, and Toronto. Their association with Kabuni increases awareness and interest.
- **Traditional media placement.** E.g. print.
- **Interior designer institutes, communities, and schools.** KBU is a member and corporate sponsor of the American Society of Interior Designers (ASID), the largest professional organisation for interior decorators in USA with 26k members and 2k industry partners. ASID will provide KBU with numerous key designer events across America for next 12 months during the term of its sponsorship agreement, with exposure to ASID's designers.
- In return for sponsorship, ASID allows KBU access to distribution network and key industry events. ASID members represent US\$8.6B spending on furniture and decor in USA. KBU will be positioned as an exclusive ASID "Premier Partner" in its industry sector, giving it prime placement, visibility, and engagement at ASID's largest events. KBU can also provide four professional development courses to ASID online, gain access to ASID's digital marketing channels, including YouTube, and a dedicated landing page for KBU on the ASID website.
- **Home design events and conferences.** KBU will participate in major home design events and conferences across North America in order to increase awareness of business among design professionals. Eg "Interior Design Show" and "Home Show" held in Vancouver and Toronto. Can tie in with using social sharing via completion and challenges for participants to use KBU across the platforms. In October 2015, KBU presented at ASID's GoPro event in NYC, attended by professional designers.
- **Contests:** Contests as marketing facilitator has proved successful for the online marketplace *freelancer.com*. In Kabuni's case, designers are invited to download app, create inspiration board, and win a prize. Recently KBU partnered with ASID to launch a contest for interior design students and recent graduates from select universities and institutes in Texas. Contests centred around participants using KBU platform to create inspiration boards.
- **Designer and clientele referrals.** KBU is relying initially for designers to spread the word about Kabuni to their existing clientele. This is a sensible approach as those homeowners who use interior designers are not a mass market (such as those who buy home decor product or furnishings without using designers) but rather a niche market.
- **Partnership with key industry groups.** KBU is examining directly targeting consumers by partnering with key industry participants related to home interior design and home decor and furnishings.

B2B means marketing costs relatively low

B2B marketing means relatively low costs.

- It is important to remember that KBU is mostly marketing to designers, and not the homeowners or general consumers. This significantly reduces the company's marketing costs. KBU relies on designers to promote Kabuni to clients for example via word-of-mouth and referrals.

GROWTH POTENTIAL – OPPORTUNITY FOR GLOBAL BRAND

- Global markets.** KBU is already targeting designers globally while serving homeowners solely in the USA and Canada. However once the company starts to commercially prove its model in these markets and build scale in users, we expect KBU will begin targeting homeowners in other markets across the globe including Europe, Australia & New Zealand, and South Africa. Use of design studio locations may also eventually follow into new markets.

COMPETITION SNAPSHOT

A fragmented market with numerous differently positioned participants.

- The market for interior designer recommended products is highly fragmented. KBU competes with both offline and online retailers, department stores, specialty retailers, stores and design studios that offer interior design services and home decor products. In the online world, these can range from giants such as Amazon where decor is just one cog in its offering to niche localised providers like HomePolish. We have focussed just on a few of the major online marketplaces (Figure 3) and briefly describe their models.

Figure 3: Select Home Décor Products and/or Interior Design Online Companies

Company	Amazon	Etsy	Houzz	Pinterest	Wayfair	Home Polish	Laurel & Wolf	Kabuni
Inspiration boards	x	x	y	y	y	x	Y	y
Home designer match	x	x	y	x	x	Y	Y	y
Holographic technology	x	x	x	x	x	X	X	y
Academy/professional ed.	x	x	y	x	y	X	X	y
Profit share	x	x	x	x	x	X	X	y
Designer urls	x	x	Y	y	x	X	X	y
Purely home decor & design	x	x	x	X	Y	Y	Y	y
In-app/site e-commerce	y	y	X	y	y	x	y	y
Donation share	x	x	X	x	X	X	X	y
Offline & online presence	y	x	X	x	X	X	x	y
Valuation	\$274b	\$1.0b	\$2.3b*	\$11b	\$3.3b	na	na	\$14M
Net revenue	\$130b	\$340M	na	na	\$3.3b	na	na	na
Mthly active users	244M	24M	35M	70M	5.4M	na	na	Na
Photos/Pins/Boards	na	na	9M	50b	na	na	na	>200
Products	200M	35M	4M	na	7M	na	na	60k
Sellers	na	1.6M	1M	na	na	450	na	>400

Figures in US\$

*Based on 2014 equity round.

Source: Companies; Foster Stockbroking estimates; Thomson.



Houzz

- Houzz is an online community focused on architecture, interior design, decorating, landscaping, and home improvement. It features interior and exterior home photos, expert and professional articles, product recommendations, a user forum, and e-commerce system. In ideabooks consumers can find home professionals and products, as well as content by designers.
- Consumers can search photos by rooms, styles, and filter by budget, area, and size, and can also add photos or sketches to create an ideabook. E-commerce is by click-through to the vendor store.
- Houzz caters to architects, builders, renovators, landscapers, carpenters, trades, and services. Houzz charges a 15% commission on merchants that sell on site, as well as advertising and premium listing fees.

Pinterest

- Home decor on Pinterest is one of the top four most pinned categories along with DIY and crafts, food and drink, and holidays and events (Source: Ahaology, 2015). Made.com says everyday people save 5m home décor pins.
- Businesses can use Pinterest to market and promote their products via boards and social media. Pinterest makes money from promoted pins and advertising. Clicking on pins brings users to website where it originated, which can result in transactions, followers, and referrals.
- Pinterest introduced buyable pins in late 2015 where consumers can buy in-app without leaving the website. Only 0.1%, or 60M, of the 50b pins were buyable as of end 2015. Most merchants make 100% on sales via Pinterest, but in future Pinterest may likely charge commission on these sales.

Etsy

- A marketplace where people connect online and offline to make, buy, and sell unique goods such as jewellery, accessories, crafts, home and living, vintage, handmade, and designer items. The focus is on unique items, as the company opposes to having goods resold. The company charges sellers a 3.5% commission fee and offers tie-ups between designers, retailers, and manufacturers. Etsy is the most popular source of repinned pins on Pinterest.

Wayfair

- Wayfair is an online site focussing on selling furniture, furnishings, and decors from over 7k suppliers. It employs boards for creating and sharing ideas, and sells its own brands as well as that of third parties.

Homepolish

- Homepolish matches designers to consumer based on physical location with 450 designers enlisted. A \$50 fee is charged for visit, plus an hourly \$100-\$130 rate with a 20%-40% mark up on products bought

Laurel and Wolf

- Laurel and Wolf uses a tender based approach where consumer submits their room or space to be decorated and receives proposals from various designers. Consumers can buy on the site and are charged a flat fee per room.



We expect KBU to find its own niche in the market.

COMPETITIVE POSITIONING - KBU TO ESTABLISH ITS OWN NICHE

- From the competitive landscape, it can be seen that a number of players co-exist with each offering their own unique differentiators in the large global home decor and furnishings market. This varies from home decor being just one cog of a mass-market global product offering (Amazon) to a purely design-focussed local approach such as HomePolish.
- We believe KBU is focussed on its own market niche and will serve those designers, homeowners, and vendors that identify with and are attracted to its model. The key elements are:
 - **Only interior design.** Focused on offering solely interior design.
 - **Inspire.** The creation of inspiration boards by both designer and homeowner.
 - **Engage.** The consumer enters into a dialogue with preferred designers.
 - **Curated.** Designers and products are vetted by KBU, especially for their quality and uniqueness.
 - **Professional.** Affiliation with professional education such as ASID.
 - **Charitable.** Donating a percentage of sales to charities combatting homelessness
 - **Offline world.** The design studio offers a space for designers to promote, work, and participate in events.
- **Network effect.** KBU's success will be driven by the network effect where the aggregation of a large numbers of buyers and sellers in a single marketplace provides it momentum and economies of scale. As scale builds, more and more buyers and sellers are compelled to participate for fear of missing out a crucial channel. The economies of scale are realisable given KBU's scalable aggregated network business model and relatively low fixed and variable costs.

CORPORATE APPEAL OF NICHE BUSINESSES

- If KBU succeeds growing its community it may become an attractive target for corporate M&A. Large players in the sector have been active in acquiring niche and boutique firms. Recent examples from 2015 include:
 - Houzz acquired GardenWeb, a garden and home advice website.
 - Pinterest acquiring The Hunt (a shopping and discovery service).

**MARKET SIZE IS LARGE: US\$68.5b****US\$68.5b of products specified by designers in US and Canada**

US\$68.5b worth of products are specified by designers in the US and Canada.

- The home design market for decor and furnishings is worth US\$163b-US\$245 in North America (Global Industry Analysts Euromonitor, Wayfair, ComScore) and US\$500-700b globally (Statistica.com, IBIS).
- Of this \$US68.5b worth of products are specified annually by US and Canadian designers (ASID). The interior designer market itself is worth US\$13b (IBISworld).
- The average spend per household in North America p.a. on home décor and design products is ca. \$3k (Decorators field guide), while when a consumer hires an interior designer the spend is \$7k (homeadvisor.com).
- There are about 127k designers working in Canada and USA (ibis world), and about 270k globally (IFI). Average designer can have clients spending \$350-400k p.a. with average commission is \$40-50k p.a.

ONLINE MARKET: UNDER-PENETRATED AND HIGH GROWTH**Growth – Online Offers Highest Untapped Opportunity**

Online growth of home furnishings is growing between 8% to 15% p.a...

...but online penetration of all home goods is still only 5% to 7%.

- Home goods growing at 3%-3.5% p.a. to 2018 (Global Industry Analysts; Harvard University), while home decor and furnishing recommended by designers growing at ca. 5-6% p.a. (ASID, IBIS).
- As in other parts of the retail world, the online growth is higher than overall. Online purchases of home furnishings forecast to grow 7.9%-15% p.a. per over the next 5 years in North America (ibis world; Wayfair) vs 1% offline and 3% overall.
- Only 5%-7% of home goods are currently sold online, but still a substantial size of US\$8b-\$17b, vs 15% for apparel and 69% for electronics goods (Forbes, Wayfair). The trend is still growing to purchase home décor and furnishings online, with 21.6% of consumers in US having done so vs 11% in 2008 (Franklin Furniture Institute).

**KBU VALUATION – RISKED \$0.44/SHARE**

- We value KBU at \$0.44/share risked, derived from a DCF model which has been discounted.

Figure 4: Valuation of KBU

	A\$M	A\$/share
We value KBU at \$0.44/share on risked DCF basis.		
Enterprise value to 2036	52	0.35
Terminal value	102	0.68
Enterprise value total	154	1.03
Net cash(debt)	4	0.03
Cash from options*	5	0.03
Equity value	163	1.09
Discount for risk	60%	60%
Equity value risked	65.1	0.44
Diluted shares used*	149	
WACC	10%	
Terminal growth rate	2%	

*All options included and performance shares excluded.

Source: Foster Stockbroking estimates.

- We exclude performance shares in our valuation as we expect KBU will achieve its milestones past the expiry dates. However we include all options as these are in the money at our valuation.
- We settled upon a DCF valuation of KBU, using assumptions based on both the magnitude and rate of market penetration, and then discounted by 60% this given the high risk faced by being a start-up. Unrisked our valuation is \$1.09/share. A multiple analysis using that of peers is difficult at this stage as we do not forecast meaningful revenue or earnings over the next 12months. Our key assumptions underpinning our DCF are summarised in Figure 5.

Figure 5: KBU DCF Model Assumptions:

Long-term, we assume KBU only penetrates 0.23% of the market.	Number of designers globally FY16	270k
	Expenditure on products in N. America via designers FY16	US\$68.5b
	% of global interior designers registered on KBU (long-term, FY32)	2.3%
	% of a designer's business that is undertaken on KBU (long-term)	10.0%
	KBU's penetration of North American spend (long-term)	0.23%
	North American spend on KBU (FY16 real terms)	US\$158M
	KBU share of spend	33%
	KBU net revenue US\$M	US\$52M
This would equate to KBU net revenues of ca. A\$71M p.a.	KBU net revenue A\$M (Long-term A\$ of US\$0.73)	A\$71M
	WACC	10.0%
	Terminal growth rate	2.0%

Source: Foster Stockbroking estimates.

We assume KBU only penetrates 0.23% of the US and Canadian market

- Our key long term assumptions are that 2.3% of designers globally register with Kabuni, and of these, 10% of their business will be undertaken through the Kabuni platform. This equates to just 0.23% of the total North America spend of US\$68.5b, equivalent to US\$158M of transactions via KBU. This would result in net revenue of A\$71M to KBU (2016 real terms). We expect ramp up to be gradual to achieve this market share, taking 15 years. Most of our valuation for KBU is rests in the terminal value.



SENSITIVITY ANALYSIS

- KBU's valuation is highly sensitive to both 1) its penetration of designers – i.e. number of designers it has registered on its app; and 2) Of those designers registered, the % of their business that is transacted on KBU. Each 0.1% increase in either adds \$0.08/share and \$0.12/share respectively.

Figure 6: KBU Valuation Sensitivity To Market Penetration

Sensitivity	Chng to valuation
0.1% increase in KBU's penetration of global designers	\$0.08
0.1% increase in designers' spend via KBU	\$0.12

Source: Foster Stockbroking estimates.

EARNINGS FORECASTS

- We forecast revenues of \$0.6M, \$1.7M, and \$4.7M in FY16e, FY17e, and FY18e as the company progressively registers designer who in turn gradually achieve sales through the platform. We do not expect positive earnings over the next few years as the company still builds scale.

KBU KEY METRICS

- We expect KBU to quote key metrics on a consistent basis in the future especially post the commercial launch of the e-commerce app version 1.6. Monthly active users has not been relevant to date, has the capability to transact on the app was only just launched. We estimate key metrics currently are:
 - **Number of registered designers.** >400 home designers registered from over 11 countries;
 - **Number of Products.** 60k SKUs home décor products;
 - **Number of Vendors.** >20 manufacturers; and
 - **Inspiration boards.** Over 200 inspiration boards.

RECOMMENDATION – SPECULATIVE BUY, PRICE TARGET \$0.44/SHARE

- We initiate coverage on KBU with a Speculative Buy, and have a price target of \$0.44/share based on our discounted valuation.
- We expect catalysts for KBU to include an increasing number of designers registered on the platform, first revenues from e-commerce launch of app, build-up of monthly active users, and potential penetration into new markets.

We initiate with a Speculative Buy recommendation, \$0.44/share price target.



CAPITAL STRUCTURE

Figure 7: KBU Capital Structure

Shares on issue	M
Ordinary shares	130.3
Options	18.7
Performance shares	38.1
Fully Diluted	187.1

Source: Company; Foster Stockbroking estimates.

- Performance shares convert to ordinary shares as follows based on milestones:
- **Milestone A:** 10.0M convert to shares upon minimum 1k registered home designers each achieving A\$200 revenue each month for 3 consecutive months before 30 August 2016, or a minimum 1k registered home designers each achieving A\$200 revenue per month for 3 consecutive months and Milestone D achieved;
- **Milestone B:** 10.0M to convert upon minimum 1k registered home designers each achieving A\$750 revenue each month for 3 consecutive months, on or before 31 December 2016, or a minimum of 1k registered home designers each achieved at least A\$750 of revenue each month for 3 consecutive months and Milestone D achieved;
- **Milestone C:** 9.0M convert upon company achieving at least A\$20M in revenue in 12 month period and has minimum 20k registered home designers, on or before 31 December 2017, or company achieves A\$20M in revenue over any 12 month period and minimum of 20k registered home designers, and milestone D achieved
- **Milestone D:** 9.0M on company achieving A\$50M revenue in any 12 month period and minimum of 35k registered home designers before 31 December 2018.

BOARD

- **Mr Neil Patel. Managing Director and CEO.** Age 41. Founder of KBU. Experienced entrepreneur with track record creating innovative technology for property sector. Prior to PDT Technologies, Mr Patel founded Madisons, a successful real estate brokerage in the UK. He created One Move Technologies in 2006, developing one of the world's first apps in partnership with Blackberry. Mr Patel is also the founder and Chairman of Better Homes For Everyone Foundation.
- **Mr Nik Ajagu. Non-Executive.** Age 34, BA. Facebook innovator and high profile Silicon Valley angel investor. Currently Head of Global Partnerships at Atlas, Facebook's advertising Technology Suite. Mr Ajagu has been with Facebook since 2007. Also a co-founder of Code & Canvas (art and innovation centre), Bare Bottle (creative platform for graphic artists and winemakers), and Ecosystem Ventures (seed stage venture capital and consulting firm).
- **Mr Nathan Sellyn. Non-Executive.** Age 33. Highly respected businessman and public company director. Partner and co founder of Assembly Stakeholder Relations, a leading investor relations firm for retail businesses. Also co founder and Chief Creative Officer of Brothersport Games, a sports gaming application development studio. Previously Director Corporate development at Great Canadian Gaming Corporation, Canada's largest listed gaming company.
- **Mr Tony King. Executive Chairman.** Age 43. B.Com, CA. A chartered accountant with over 15 years' experience in finance, accounting, and corporate. Extensive experience in business development and transactions. Key relationships with funds, stockbrokers, and financial institutions. Mr King is MD of Max Capital Pty Ltd since 2011, and prior with Grange Capital.
- **Matt Hehman. Non Executive Director.** Age 33. BA. Former Facebook executive. Experienced in commercialising platforms, as well as sales and marketing. Began working with Facebook in 2005 in US and moved to Australia in 2009 to grow its business there. Also on board of non-profit organisation Sing Me A Story for children in need.



RISKS

- **Branding risk.** Kabuni brand may fail to gain traction in the market, or become damaged, which would reduce customers awareness of perception of it, leading to less interaction on its marketplace.
- **Competition risk.** Existing or new competitors in the home design market may offer more attractive terms for designers, consumers, and vendors. This may make it harder for KBU to attract users as well as cause it to lose existing ones.
- **Technology risk.** Changes in technology may cause Kabuni's website, app, or design studio to become obsolescent or less attractive than those of competitors, causing it to lose customers and designers.
- **Management risk.** The loss of key executives from KBU, such as but not limited to the founder and CEO, could cause the performance and management of the business to deteriorate and a loss of investor confidence.
- **Execution risk.** KBU is an early stage start up, with its business model yet to be proven. The Kabuni model may not work to the company's or users' expectations, which would negatively impact ability to generate earnings.
- **Economic risk.** Any downturn in the US, Canadian, or global economies may cause less consumer spending on Kabuni's products, impeding growth and earnings.
- **Security risk.** Cyber hacking of Kabuni's data may infringe on the privacy and confidentiality of its users' information, which would damage the brand and business.
- **Funding risk.** KBU may require further funds to establish and grow its business. However any risk aversion to providing funds to early stage business may make it difficult for KBU to access funds, threatening its business.
- **Dilution risk.** Any further funding to grow the business may result in KBU issuing equity on a dilutive basis, negatively impacting shareholders.

FOSTER STOCKBROKING DIRECTORY

Name	Role	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
Chris Francis	Executive Director	+61 2 9998 8167	chris.francis@fostock.com.au
Haris Khaliqi	Executive Director	+61 2 9993 8152	haris.khaliqi@fostock.com.au
Martin Carolan	Executive Director	+61 2 9993 8168	martin.carolan@fostock.com.au
Mark Fichera	Executive Director	+61 2 9993 8162	mark.fichera@fostock.com.au
Mark Hinsley	Executive Director	+61 2 9993 8166	mark.hinsley@fostock.com.au
Marc Kennis	Research	+61 2 9993 8130	marc.kennis@fostock.com.au
Tolga Dokumcu	Execution & Dealing	+61 2 9993 8144	tolga.dokumcu@fostock.com.au
George Mourtzouhos	Execution & Dealing	+61 2 9993 8136	george.mourtzouhos@fostock.com.au

Foster Stockbroking Pty Ltd
 A.B.N. 15 088 747 148 AFSL No. 223687
 Level 25, 52 Martin Place, Sydney, NSW 2000 Australia
 General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

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