

AUSTRALIAN

# RESEARCH



This is an extract from the April 2005 Emerging Companies Review

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# Jumbo Corporation Limited (JUM)



Sector	Sub Industry	Industry Group	Key Services
Consumer Discretionary	Retail	Internet & Catalogue Retail	Catalogue Retail

## Company Overview

JUM, founded in 1995, is a developer of secure online retailing software with credit card security, anti-fraud filters and marketing functions. The online shopping mall through which JUM sells "internet friendly" goods (computer software, luxury items, lottery tickets and gifts) has historically generated over 95% of revenue. The mainstay of the business may change with JUM's proposed acquisition of TMS Global Services (TMS), a wholesaler and online retailer of lottery products through agreements with Tattersall's (Vic) and NSW Lotteries Corporation. Also, JUM holds a 16% stake in on-line casino operator, Global Approach Limited (GLO) and is in the throes of launching Betexsports.com, the first Australian-based on-line betting exchange.

## Strategy

The proposed acquisition of TMS – subject to shareholder approval (due mid-May) – marks a strategic shift in the business and is expected to generate more than two-thirds of group revenue. The cornerstone of JUM's strategies is aimed at building on synergies between its established online retailing business and an emerging online gaming business. To this end, JUM's focus is on expansion into online gaming – facilitated through TMS and its investment in GLO. Also, the recent launch of the betting exchange software system will provide the launch pad for JUM's expansion into online betting.

## Aegis Comments

**Outlook:** JUM expects steady organic growth for FY05 based on further strength in e-commerce and online retailing. However, we believe that the blue-sky lies in TMS; based on unaudited results for the 6 months to December 2004, TMS produced a NPAT of \$0.7M on revenues of \$9.4M. The company's ability to leverage TMS, which, historically being a non-internet based lottery distributor will benefit from JUM's technical capabilities. Also, through its online betting exchange, JUM has the opportunity to participate in the high-growth betting exchange market.

**Catalysts:** The stock has rallied largely on the back of the TMS acquisition. The launch of the online betting exchange is taking longer than anticipated; the downside share price risk lies in this failing to bear fruit. However, considering JUM's strong growth outlook from its increased participation in gaming, we would regard this as a temporary setback.

**Risks:** Online security; however considerable effort is made to ensure payments are secure and online fraud is kept to minimal levels. Risks facing TMS are (1) changes in current legislation (2) uncertainty surrounding the renewal of the agreements with Tattersall's and NSW Lotteries Corporation that run through to calendar 2007.

## Earnings Summary

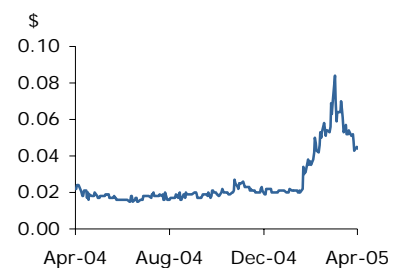
Yr to Jun	NPAT (Rep \$M)	NPAT <sup>1</sup> (Adj \$M)	EPS <sup>1</sup> (c)	EPS chg (%)	PER (x)	PER rel All Ords (x)	PER rel Sector (x)	DPS (c)	Yield (%)	Franking (%)	ROE (%)
2001A	(0.6)	(0.6)	(0.4)	n/a	(9.5)	(0.3)	(0.2)	0.0	0.0	0	(52.1)
2002A	(0.5)	(0.4)	(0.3)	n/a	(13.5)	(0.5)	(0.3)	0.0	0.0	0	(63.7)
2003A	0.1	0.1	0.1	n/a	41.9	1.7	1.3	0.0	0.0	0	20.9
2004A	0.3	0.3	0.2	109.7	20.0	1.1	0.8	0.0	0.0	0	23.8

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items and goodwill. All the above statistics are derived from normalised earnings.

## Key investment information

<b>Price:</b>	<b>\$0.04</b>
Price as at:	19 Apr 05
Market Cap (\$M):	11.7
Equiv. Shares (M):	198.8
% Market:	0.0
12Mth Range (\$):	0.02 - 0.08
Shares Traded (\$M pa):	22.6
Listed since:	Jun-72
Index:	na

## Share price performance



Source: IRESS

## Company contact



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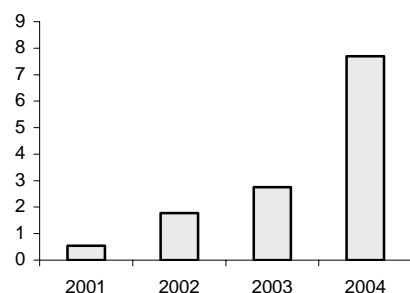
**Financial Stability**

Balance Sheet (Y/E Jun)	03A	04A
Total Debt (\$M)	0.0	0.0
Total Assets (\$M)	1.7	3.4
Net debt/equity (%)	na	na
Net interest cover (x)	na	na
NTA per share (\$)	0.02	0.00
Current Ratio (x)	1.0	1.1
<b>As at 30-Jun-04</b>		
Net Cash (Debt) (\$M)		1.9
Net Cash (Debt)/shr (\$)		0.01
Net Debt/Mkt Cap (%)		na

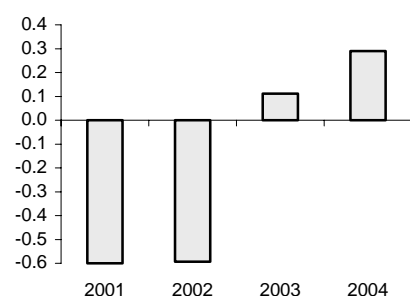
**Substantial Shareholders**

Vesteon Pty Ltd	28%
ANZ Nominees	16%
Warawong	3%

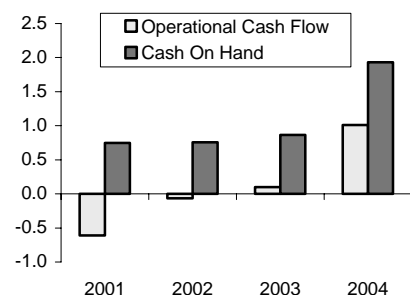
**Revenue (\$M)**



**Net Profit/Loss (\$M)**



**Cash Position (\$M)**



Source: JUM / Aegis Equities Research

**Industries of Operation**

JUM's operating activities encompass: on-line shopping mall, on-line retailing and the provision of IT services. The primary market is the USA online consumer market that is growing by more than 50% per annum. JUM has a less than 0.5% share of this highly fragmented A\$120B market. The company has expanded into gaming through the proposed acquisition of TMS, which sells Australian lottery tickets online from its website at www.ozlotteries.com and through wholesale networks and mail order in other countries. JUM is also exposed to online gaming through its investment in GLO. Through Betexsports.com, JUM is vying for a small piece of the highly lucrative betting exchange market, dominated by UK-based Betfair.

**Differentiating Factors**

JUM has a strong track record – it is one of the few Internet companies that has consistently grown and its online retailing business is now profitable and at a scale that has enabled it to negotiate more favorable terms for many of its core products. Its competitive advantage stems from nine years of experience in online security, marketing and customer service. The ability to leverage the company's online capabilities is a key strength that is being applied to expansion into online gaming and the lottery business. JUM has an ongoing research and development program that continually updates the software to keep ahead of competition. Enhancements are built as required while other web sites with "off-the-shelf" software systems must rely on the developer to deliver those enhancements.

**Key Executives**

**Management:** Mike Veverka has been CEO since the company was restructured in September 1999. Mr Veverka was the founder of Benon Technologies – the main operational entity for the online retailing – and was instrumental in the development of the e-commerce software that is the foundation of JUM. Mr Veverka holds an Honours degree in engineering.

**Board:** Alan Phillips, Mike Veverka, Earl Evans

**Recent Announcements**

**5 April 2005 – Expansion into online pharmacy.** JUM has announced the launch of www.jumbopharmacy.com.au, a website offering over 4,000 products in healthcare and beauty. The fulfilment functions will be facilitated through a strategic alliance that has been formed with Pharmacy Online.

**22 March 2005 – Acquisition of online lottery business.** JUM has entered into a heads of agreement to acquire TMS for \$4M. TMS is a wholesaler and online retailer of lottery products through Tattersall's (Vic) and the NSW Lotteries; its fastest growing business is its online lottery division that sells Keno, Lotto and Powerball from its website www.ozlotteries.com. TMS generated \$19M in revenue and EBITDA of \$0.9M in FY04.

**4 March 2004 – Tender submission for online lottery sales.** JUM advised the market that it been invited to participate in a tender submission to operate the online component of an established national lottery business.

**18 February 2005 – Fifth consecutive half-yearly profit announced.** NPAT more than doubled to \$0.248 for the six months ended 31 December 2004. This was underscored by a more than 20% increase in online customers, reflecting continued growth in global online retailing.

**8 February 2005 – Profit Upgrade.** NPAT of \$0.250M signaled.

**Capital Structure**

There are 261M FPO shares and 6.5M options on issue. The options have a five-cent exercise price and 5 June 2006 expiry date. Diluted number of shares will increase to 331.9M should JUM acquire TMS, of which the vendors of TMS will hold a 20% stake.



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