



Technofying customer data

99 Loyalty (ASX:99L) is a China-based and ASX-listed Platform as a Service (PaaS) provider offering customised Cloud-based solutions for loyalty management and customer engagement. Through its interactive marketing and reward redemption management systems, 99L supports Chinese financial institutions to retain and acquire new customers by analysing trends in their historical data.

Online insurance brokerage operations to drive growth

Leveraging long-standing relationships with China-operated financial institutions, and with steady investment in channel development, 99L is consistently expanding its online insurance brokerage operations. With support from its platform and deep industry knowledge, the company is expected to significantly benefit from cross-selling.

Pre-play investment in the digital economy of China

One of the most recent lifestyle trends in China is the increased use of virtual goods and services. With the digital economy set to be >50% of total GDP by 2025, 99L is well-positioned to benefit from this structural tailwind.

Valuation range of A\$0.09–0.20 per share

We value 99L at A\$0.09 per share base case and A\$0.20 per share optimistic case, using a composite of DCF and RV. Our assumptions are based on expansion of online insurance brokerage operations, stability in digital spending on financial enterprises and entry into new customer verticals. Execution and sudden change in regulations remain the biggest risks.

Year to Dec (RMB)	2020A	2021A	2022F	2023F	2024F
Sales (m)	231.7	208.1	270.4	337.8	405.2
EBITDA (m)	74.0	(48.2)	31.7	56.6	85.8
Net Profit (m)	31.6	(74.2)	12.0	32.3	55.7
EBITDA Margin (%)	31.9%	NM	11.7%	16.8%	21.2%
ROA (%)	4.3%	NM	2.4%	6.2%	10.2%
Net Gearing (%)	74.0%	57.2%	53.1%	46.2%	38.1%
EPS	0.03	(0.06)	0.01	0.03	0.05
DPS	NM	NM	NM	NM	NM
EV/Sales	0.4x	0.2x	0.1x	0.1x	0.1x
EV/EBITDA	1.4x	NM	1.0x	0.6x	0.4x
P/E	3.2x	NM	2.7x	1.0x	0.6x

Source: Company, Pitt Street Research

Share Price: A\$0.028

ASX: 99L

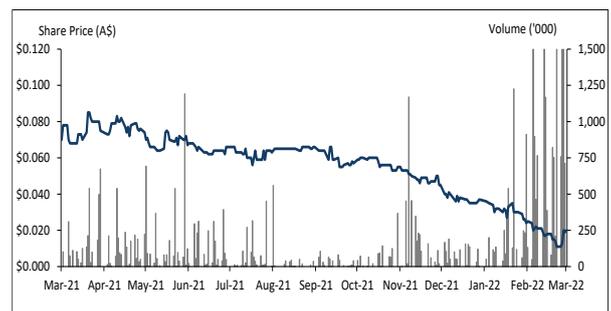
Sector: Technology

14 March 2022

Market cap. (A\$ m)	32.5
# shares outstanding (m)	1,160
# shares fully diluted (m)	1,172
Market cap full. dil. (A\$ m)	32.8
Free float	40.4%
52-week high/low (A\$)	0.095 / 0.009
Avg. 12M daily volume ('1000)	194.1
Website	www.99loyaltytech.com

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Thomson, Pitt Street Research

Valuation metrics	
DCF valuation range (A\$)	0.10–0.19
Relative valuation range (A\$)	0.08–0.21
Blended valuation range (A\$)	0.09–0.20

Source: Pitt Street Research

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Key financial data

Profit & Loss (RMB million)	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Sales Revenue	128.8	189.1	231.7	208.1	270.4	337.8	405.2	465.9	524.0
Operating expenses	(118.9)	(149.0)	(157.8)	(256.3)	(238.7)	(281.2)	(319.4)	(352.8)	(379.6)
EBITDA	9.9	40.1	74.0	(48.2)	31.7	56.6	85.8	113.0	144.4
Depn & Amort	(3.9)	(9.4)	(11.8)	(10.7)	(6.9)	(5.2)	(4.9)	(4.5)	(4.4)
EBIT	6.0	30.7	62.2	(58.9)	24.8	51.4	80.9	108.5	139.9
Finance Cost	(18.3)	(14.0)	(15.6)	(14.8)	(8.8)	(8.3)	(6.6)	(6.2)	(2.9)
Profit/(Loss) before tax	(12.3)	16.7	46.5	(73.6)	16.0	43.0	74.3	102.3	137.0
Tax expense	3.2	(3.6)	(14.9)	(0.6)	(4.0)	(10.8)	(18.6)	(25.6)	(34.3)
NPAT	(9.2)	13.1	31.6	(74.2)	12.0	32.3	55.7	76.7	102.8
Cash Flow (RMB million)	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Profit after tax	(9.2)	13.1	31.6	(74.2)	12.0	32.3	55.7	76.7	102.8
Depn & Amort	6.4	11.7	12.6	10.9	6.9	5.2	4.9	4.5	4.4
Changes in working capital	20.2	2.8	(52.4)	(58.5)	(7.4)	(25.4)	(38.4)	(7.5)	(3.3)
Other operating activities	11.2	8.6	29.8	63.4	8.8	8.3	6.6	6.2	2.9
Operating cashflow	28.7	36.2	21.7	(58.4)	20.2	20.4	28.8	79.9	106.9
Payments for purchase of plant and equi	(0.4)	(3.0)	(0.0)	(1.3)	(1.4)	(1.7)	(2.0)	(2.3)	(2.6)
Other investing activities	22.1	31.8	49.9	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Investing cashflow	21.7	28.8	49.8	(1.5)	(1.5)	(1.9)	(2.3)	(2.6)	(2.9)
Net proceeds from borrowings	(38.0)	(39.3)	11.9	(5.6)	(5.0)	(5.0)	(5.0)	(10.0)	(10.0)
Other Financing activities	2.2	10.0	(63.9)	(24.3)	(8.8)	(8.3)	(6.6)	(6.2)	(2.9)
Net change in cash	14.6	35.7	19.5	(89.8)	4.9	5.2	15.0	61.1	91.0
Cash at End Period	57.0	93.1	112.5	22.8	27.7	32.9	47.9	109.0	200.0
Balance Sheet (RMB million)	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Cash	57.0	93.1	112.5	22.8	27.7	32.9	47.9	109.0	200.0
Total Assets	695.9	761.3	703.3	503.6	506.7	536.3	557.0	627.8	724.6
Total Liabilities	385.3	440.1	350.5	225.1	216.2	213.5	178.4	172.6	166.6
Shareholders' Funds	310.5	321.2	352.7	278.5	290.5	322.8	378.5	455.3	558.0
Ratios	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Net debt (cash)/Equity	21.0%	-1.7%	-1.1%	26.9%	22.4%	17.0%	9.2%	-8.0%	-24.6%
Total Cash / Total Assets	8.2%	12.2%	16.0%	4.5%	5.5%	6.1%	8.6%	17.4%	27.6%
Return on Equity (%)	NM	4.2%	9.4%	NM	4.2%	10.5%	15.9%	18.4%	20.3%



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99L has a patented Cloud-based platform with scalable architecture that cannot be replicated with ease

99L offers value-accretion to enterprise clients by seamlessly integrating into their existing infrastructure

99 Loyalty in a nutshell

99 Loyalty started operations in 2011. Based in Shanghai, 99L is an ASX-listed business-to-business (B2B) loyalty management technology service provider. Through its patented Cloud-based Platform-as-a-Service tool (PaaS) and mobile-based delivery platform, 99L offers loyalty management solutions and customer engagement models. The company mainly serves enterprise customers within the financial services industry in China. Its portfolio includes business procurement tools, interactive marketing systems, reward redemption management systems, information security management systems, aggregated payment solutions and digital insurance distribution channel systems.

Leverages proprietary algorithm to offer integrated solution

99L offers customised solutions based on a basic technological module with scalable architecture. Considering that the platform is protected with patents and copyrights, it is difficult for would-be competitors to replicate these systems. Leveraging its patented algorithm, 99L integrates its systems into the client's ecosystem. Working 'behind the scenes', these systems use data on end-customers, apply analytical tools and derive the required trends and insights. The technical suite from 99L adds value by sourcing and delivering virtual goods. 99L also offers the operational and required technical support for these systems. The enterprise client benefits from access to a full suite of solutions, including security, trend analysis and delivery of virtual goods. Providing a complete suite of solutions is the defining feature of 99L that sets it apart from other data loyalty technology service providers.

Relationship with big brands ensures cross-sell opportunities

Considering that financial service enterprises are highly protective of their customer data, it takes a considerable amount of time for them to gain confidence in 99L's integrated services. However, once a working engagement is achieved, these institutions tend to not change vendors frequently. 99L has a list of ~200 big brands as enterprise clients. The enhanced understanding of the client's business provides the company an opportunity to expand its offerings to the client. Simultaneously, these brands offer further business opportunities with related partners, expanding 99L's latitudinal space.

Recurring revenue from big brands

99L deploys a highly synergistic service line, which enables it to charge customers for the entire solutions suite. It charges a base fee, which includes platform access, as well additional fees for using optional modules; and it also collects support and security charges. Since the vendor-vendee technological engagement is long-term in nature, 99L receives recurring revenue. The consistently evolving demand for digital marketing solutions within the Chinese financial service sector will support 99L in expanding its business operations.

Customer stickiness drives revenue growth

By embedding its systems in clients' existing technology infrastructure, 99L cements its position in a company's ecosystem. This benefits the user-company by promoting end-customer stickiness. We believe this provides continued opportunities for upselling additional solutions to existing clients, thereby driving top-line growth.



Investment Case: Key reasons to look at 99L

I. A unique value proposition

99L's Cloud-services loyalty solution platform and data analytics capability supports financial institutions in China to acquire and retain customers. For its long-standing enterprise clients, the company provides B2B solutions for loyalty enhancement. Through its highly synergistic service lines, i.e. redemption management, interactive marketing and loyalty program, 99L has a strong competitive advantage. It offers specialist technology solutions that are designed exclusively for customer engagement and customer acquisition strategies. 99L offers an opportunity to invest in the rapid digitisation of financial services in China.

II. "Virtual Goods" is the new way-of-life in China

According to the China Academy of Information and Communications Technology (CAICT), China's digital economy grew 9.6% YoY in 2020 to reach USD6.1 trillion and is forecasted to account for about half of China's GDP by 2025. Virtual goods and services are the new lifestyle phenomenon in China. As membership credits, in-app currencies and digital coupons become the new marketing tools, the demand for 99L's loyalty systems will expand. From an investor's perspective, 99L is a pure-play on China's rapidly expanding digital economy.

III. Horizontal depth supplements vertical expansion

The updated technological advancement is expected to push 99L up the value-chain, in terms of the quality and quantum of clients. With a continuous stream of new features and integrated digital payment service operations, the company can now attract a higher share of the customer's digital budget through cross-selling. The company has been consistently expanding digital channels, increasing marketing and partnering with global brands to reach a variety of customers, while simultaneously expanding its high-growth online brokerage business operations. We believe that as the brand and product visibility increase, investor interest is likely follow.

IV. High entry barrier provides a 'moat' to the operations

99L has been delivering added value to its clients through technologically advanced systems for many years now. These scalable platform services are protected by patents and copyrights and are hard to duplicate. Their substitution will also require significant investment. In addition, their depth of industry knowledge and proprietary data makes it difficult for competition and in-house substitution to replicate the success. This provides 99L with the advantage it needs to expand operations.

V. One of the most undervalued technology platform provider

We believe that 99L's current valuation does not accurately reflect its growth potential. It is one of the least expensive investment opportunities within the high-growth digital platform service industry. The partnership with local and global merchant brands provide 99L with significant opportunities to cross-sell in the financial services industry. The scalable and fit-for-purpose systems are well-equipped to lead the expansion into other industries. The possibility of revenue expansion owing to recent addition of the payment aggregation service and expansion of brokerage operations will aid in re-rating of 99L over the medium-to-long term period.

Growing brand visibility and wider services will drive investor interest

Current valuation does not reflect 99L's true impact on its clients and its complete growth potential



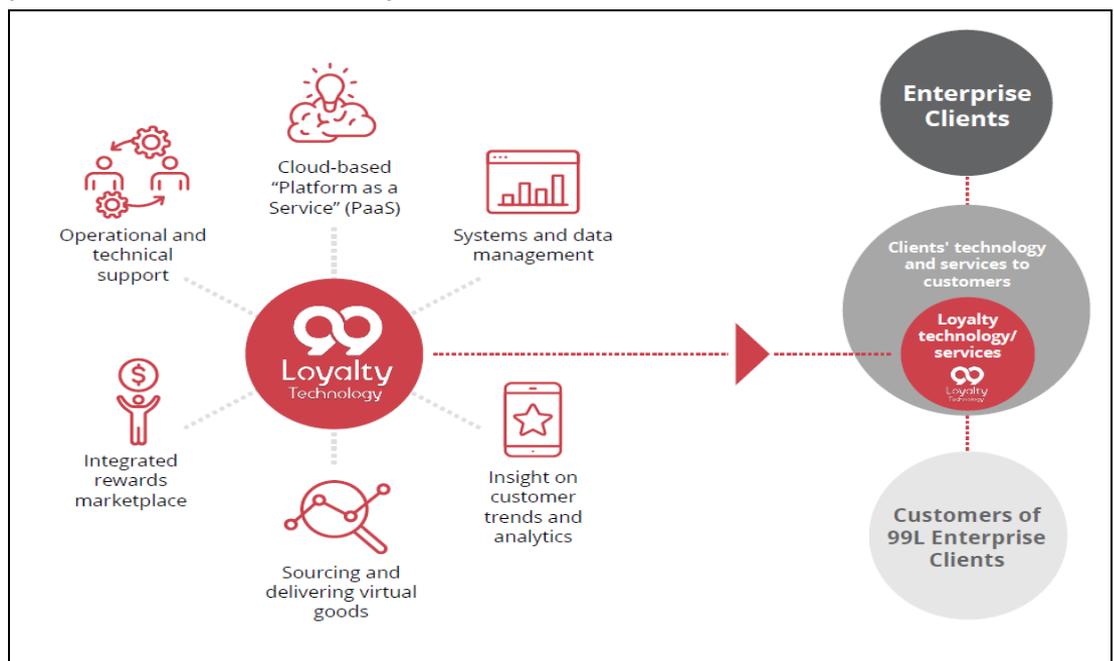
Extracting worth from existing raw data

A core mission of global financial institutions is leveraging emerging technologies (such as artificial intelligence and data analytics) to enhance data governance and service uptake, fostering financial inclusion. However, lack of sufficient knowledge and awareness of existing digital tools has caused low adoption.

Since its inception in 2011, 99L has been focussing on loyalty management systems for its clients, providing technological tools that support clients in acquiring, engaging and retaining customers. 99L has been enabling Chinese financial institutions, i.e. banks and insurance institutions, to utilise technology for extracting more from the existing customer data set, using analytics and trend analysis for customer acquisition, engagement and retention. The company empowers institutions technically so that they can strategically manage their customer’s loyalty, thereby achieving a higher revenue. 99L helps modernise marketing strategies and engages new & existing customers with the use of personalised content.

99L is a specialist technology provider supporting fit-for-purpose customer engagement and acquisition strategies through analytics and trend analysis

Figure 1: 99L offers a suite of value-added online services by seamlessly integrating its Cloud-based platform into the customer’s ecosystem



Source: Company

The company has helped financial institutions in China realise that constantly changing and evolving customer demand requires better management. With the digitalisation of the Chinese economy, it has become imperative for service providers to offer tailor-made solutions to end-customers. This is achieved through multiple touch points and constant engagement. In order to effectively execute customer engagement programs and achieve consistent customer growth, having the right technological support is imperative.

99L utilises artificial intelligence and machine learning mechanisms to help enterprises identify patterns in their clients’ behaviour (through existing raw



data) and provide offers that are perfectly in line with the preferences of the clients. The Cloud-based technological platform and mobile tools seamlessly integrate into the client's ecosystem, read the existing customer data, analyse the trends and then recommend a particular virtual product/service (Figure 1).

The mining of existing customer data happens in the background, without disrupting the existing ecosystem and its functionality. The users continue to interact in the client's ecosystem as normal, but with an enhanced experience. Since the systems are customised and only available to enterprises, no one institution has the fear of data theft. Apart from system and data management, 99L also provides the required technical support for smooth functioning.

Within these integrated systems, 99L runs three major service operations for enterprises — redemption management, loyalty programs/interactive marketing and virtual goods delivery channels.

Using technology for redemption management

A customised rewards and loyalty program solution platform is integrated within the enterprise's existing systems and mobile apps to act as marketplace for rewards redemption. The solution offers various virtual products as rewards, including delivery and after-sales services. Through these comprehensive and modularised solutions, enterprises can construct their own loyalty program, manage a membership system and also enable membership redemption policies.

These systems also act as one-stop shop, wherein enterprises can manage virtual and digital product portfolio procurement operations, thereby managing costs.

As loyalty programs are consistently attaining importance within the digital marketing ecosystem, the requirement of redemption technological systems has been gaining momentum for corporates. 99L's redemption solutions are a perfect fit for enterprises.

Deploying propriety platform for interactive marketing

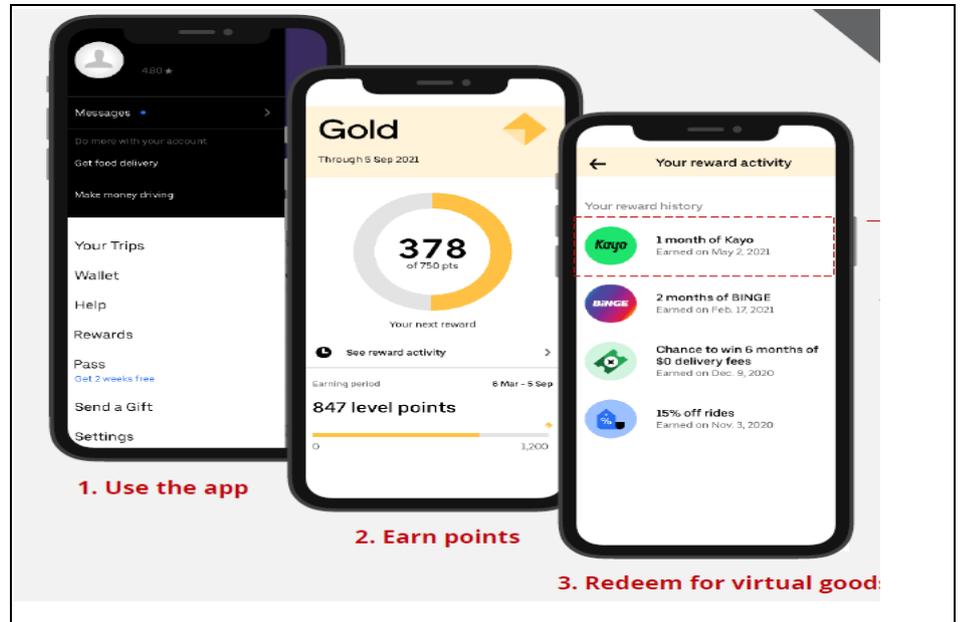
Personalized digital marketing messages are now trending in the ever-evolving digital economy. Customer communication has reached a point where unfocused marketing campaigns are no longer effective. The consumer wants dedicated and hyper-selective communication, which has become scalable due to various technological advancements. Consequently, institutions are eagerly looking for digital tools that align to their customer acquisition challenges and goals. Everyone wants a platform that is built to help generate a higher revenue and eliminate wasted spend from the digital ecosystem.

99L offers a suite of offline and online solutions for enterprises to create and design a customised marketing programs. These tools and systems serve wider business activities and have the power to reach millions of end-users. The company also provides the necessary operational support.

Company's digital marketing service portfolio includes M-commerce marketing solutions, customer behaviour data analysis and offline to online integration



Figure 2: Higher smartphone usage supports redemption management tools



Source: Company

Within the interactive marketing solution portfolio, 99L offers wider coverage (Figure 3):

Figure 3: 99L distributes interactive advertising tools and systems



Source: Company

- Digital marketing is complex and, to some institutions, daunting. Therefore, **Customer Acquisition** tools from 99L analyse the trends of customer traffic and identify their critical touch points. This helps the



financial institutions to concentrate and customised their product offering.

- **Agent management** tools run on a pre-defined policies/objectives and provide the required interface to manage it. The tool monitors the activities, report abnormalities and responds automatically. It collaborates resource usage and provides timely update.
- With the advent of digital marketing and tools, the demand for organising media assets is also on the rise. Consequently, 99L, within its suite of digital marketing solutions, also offers solutions to store, organize and enable the efficient use of library of digital / media assets created for the brand. These **Digital Asset Management** tools also assist in plugging 'information leakage' across diverse teams that are collaborating virtually.

Strong base of elite enterprise clients offers significant cross-selling opportunities

Characteristically financial institutions have always been protective about their customer data. However, with the advent of digital economy, it has become necessary for them to utilize the existing customer data for 'channelising' tailor-made products and engagement enhancement. Initially, these institutions were sceptical in using technology for their benefit but 99L's specialised skills, trustworthy system and better end results delivery platforms have made these institutions a bit more progressive with regard to the use of their customer data for business growth.

Today, 99L boasts of a list of ~200 brands as enterprise clients, across banks and insurance companies, operating within Mainland China and the Hong Kong SAR (Figure 4). Since the big brands are not use to changing technological vendors quickly, it provides 99L with a pool of sticky clients. Having worked with the best service institutions, gaining market knowledge and keeping an eye on the hanging trends, 99L is best suited to offer the latest technological services and therefore have ample cross-sell opportunities.

99L has been consistently targeting an extension and diversification of enterprise client base

Figure 4: 99L can boost of high-paying enterprise institutions as clients operating in China and Hong Kong



Source: Company



Strong list of merchants provides great traction on marketplace

99L owns and operates a consumer marketplace platform — 99tech.com. This is a B2B platform which acts as a bridge between merchants and their financial institution and telecom business partners. These business partners are offered goods & services by global merchants (Figure 5). Though the marketplace platform represents a miniscule portion of 99L’s current operations, it symbolises a complimentary service within the portfolio suite.

Figure 5: 99L has various Chinese and global brands as merchant partners on its marketplace platform



Source: Company

Extending payment services to pursue opportunities across the value chain

Recently, 99L had announced that its affiliated company, Shanghai Handpal Information Technology Services Co. Ltd., had completed all regulatory requirements and officially obtained an Aggregated Payment Qualification (APQ)*. Currently, there are only 170 entities in China that qualify as aggregated payment technology service providers.

**Aggregated payment or integrated payment refers to the suite of services engaged in payment, settlement and remittance clearance.*

APQ allows a vendor to provide full scale of services — payment channel, collective reconciliation, error handling, financial service guidance, member account servicing, operation process software servicing, and subsequent operation and maintenance services.

The APQ service platform, including terminal provision and maintenance, can reduce the cost and expenditure faced by enterprise clients when accessing and maintaining payment and settlement services, improve the operation efficiency of merchant payment and settlement systems, and collection payment services with value-added income.

99L has qualified to provide technical and operational services for secure digital payments and other related processing of online transaction

Through consistent investment in R&D, 99L has been improving its suite of technological services. The availability of aggregated payment license will empower 99L to offer services across the entire value-chain, including **pursuing opportunities within the digital currency environment**. As the circulation and promotion of digital currency expands in China, 99L can **aspire to become a dominant payment channel partner** for its enterprise clients in the long-term. 99L will also be able to assist enterprises in solving the



omnipresent problem of repeated reconciliations across different payment channels.

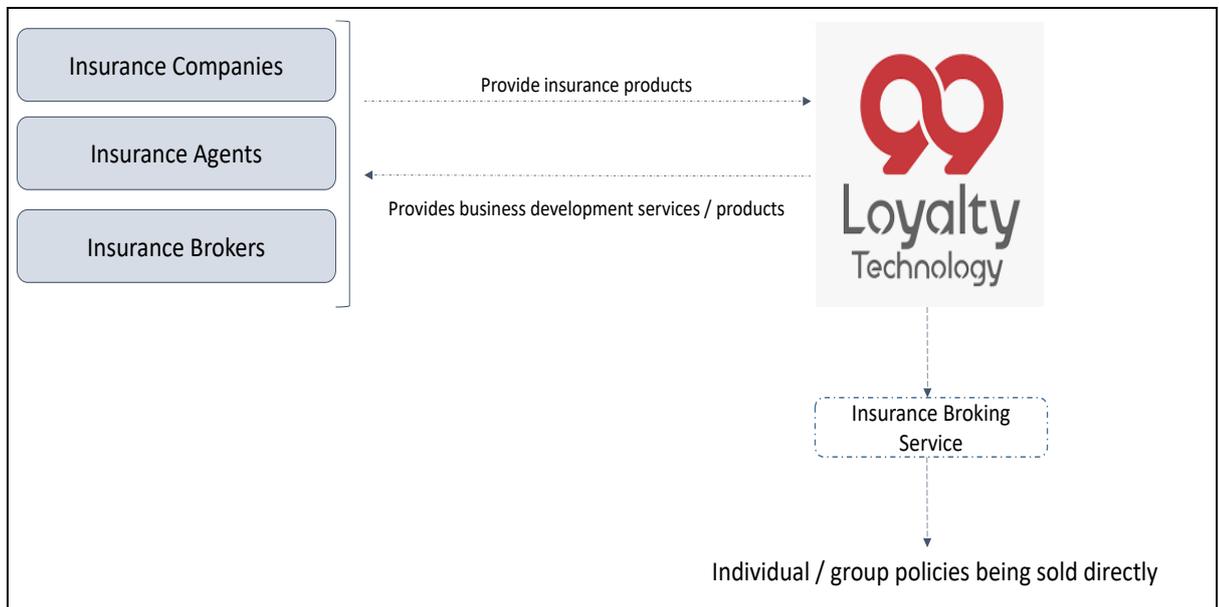
Online insurance distribution: next cycle of growth

99L to leverage its platform for online insurance distribution

In 2017, the company obtained an insurance broking license in China after acquiring 95% stake in Beijing Dingli Insurance Brokers Ltd. 99L bought the remaining 5% in 2019. Beijing Dingli enabled 99L to provide offline agency business but 99L subsequently qualified for online insurance sales. Beijing Dingli tends to work via partnerships with various financial institutions, leveraging off its technologically superior platform (Figure 6).

Delivers “virtual goods” using demand-supply matching tools

Figure 6: 99L leverages its platform ecosystem for online distribution of insurance products and services



Source: Company

99L’s **proprietary platform** for online brokering of insurance products has opened a new line of business operations for the company. The company’s insurance brokerage service platform integrates “Platform + Internet + Services” for the benefit of insurance product producers, selling agents and the end-consumer. Through its systems and digital tools, 99L assists enterprise in expanding their online distribution channel, lower customer acquisition costs, efficient processing, and enhanced opportunities for loyalty initiatives.

Purchasing digitalised insurance is proving highly convenient due to rapid penetration of smartphones

The company promotes and also brokers a **range of insurance products** through its online platform. The company integrates virtual financial products, i.e. insurance, digital loans etc., into 99L’s service platform. Thereafter it delivers these ‘virtual goods’ to its business partners, including other financial institutions. It uses the demand-supply tools to match products with potential customers.

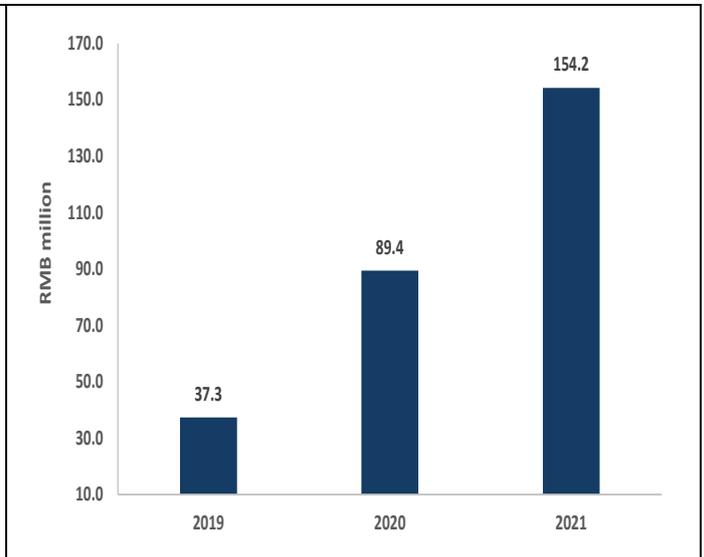
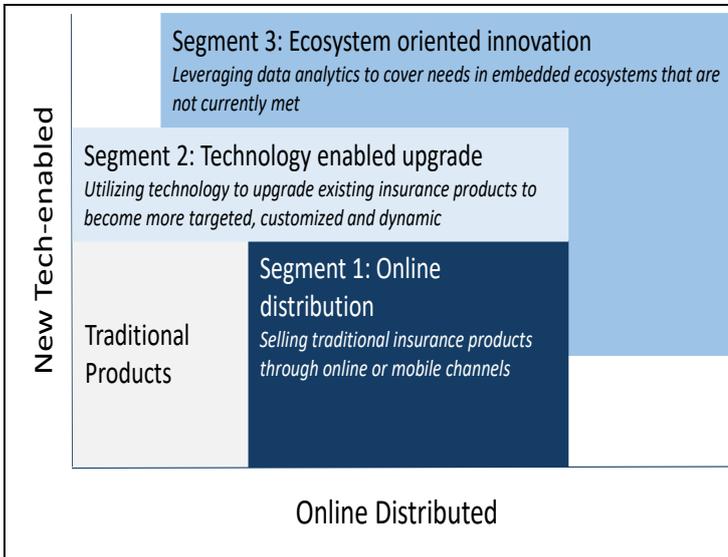
99L provides a neutral third-party platform which acts as a one-stop-shop for insurance agents to give their offline operations substantial online capabilities (Figure 7). The agents get access to a greater range of products, a better match of policies for their customers, expanded sales reach and network, reduction in marketing costs, and improved efficiencies in the selling and



claim settlement processes. In addition, 99L can demonstrate a long term track record for transaction and data security.

Figure 7: 99L is aptly placed within the ‘insurtech’ segments

Figure 8: 99L’s insurance operations are growing steadily



Note: ^ Insurance + Technology = Insurtech

Source: Company, Pitt Street Research

Source: Oliver Wyman, Pitt Street Research

Online distribution operations has a relatively higher return

For 99L, insurance brokerage services represents the fastest growing virtual good category. Its operations **require lower working capital** than many other virtual goods. Simultaneously, the company’s established relationships with many of China’s largest insurers provide the necessary visibility. Aided by its proprietary technological systems, 99L has been able to integrate its own brokerage business operations through seamless delivery.

- In FY2021, 99L has reported a 72.5% YoY increase in insurance brokerage revenue to RMB154.2m (RMB89.4m in FY2020; RMB37.3m in FY2019) (Figure 8).
- The management has committed an increase in investment across marketing and channel development activities. The aim is to capture higher market share along with enhancing the brand visibility in the fast growing insurance brokerage services business.

99L commands only a miniscule share in online insurance premium as collected in China, i.e. <0.05%. This provides ample opportunity for growth to the company. **99L is targeting insurance brokerage services to drive the majority of its revenue growth over the short-to-medium term.**

99L is expected to face serious competition

While we believe that 99L is adequately placed to leverage its well-established platform for expansion of insurance brokerage operations, it is imperative to note that the competition within the online insurance industry is intense. Apart from the well-established online-only insurance companies, like Zhong An Insurance, TK.cn Insurance, 1An Insurance and Answern Insurance, there are digital insurance distribution platform companies a well, like Huize Holdings, Cheche Technology and Insgeek.

We believe that 99L will have to make significant investment in order to expand distribution channel and improve brand visibility.

99L receives commission income on all transactions that are completed via its platform



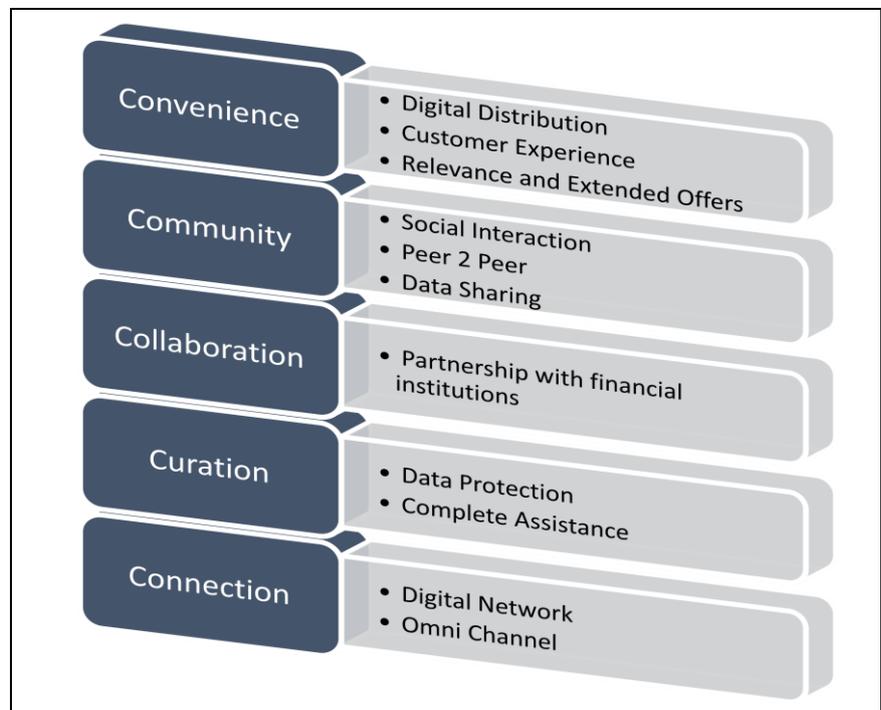
99L is value accretive for clients

Complementing the platform economy ecosystem

The digital economy is powered by data, as generated by all telematics, IoT and wearables. Analytically utilising such data sets to augment tailor-made solutions for the end-customers will be the cornerstone of integrating technological research and financial innovation. This is something which 99L is well equipped to achieve.

99L addresses all the standard pillars of a platform economy — convenience, community, collaboration, curation and connection (Figure 9). Its competitive strength lies in the platform ecosystem and the partnerships it has nurtured over the years in the Chinese financial service industry.

Figure 9: The five pillars of a platform economy



99L covers all levers of platform ecosystem

Source: Accenture, Pit Street Research

99L uses behavioural data to identify moments in which the customer can use a financial product. These digital ecosystems of 99L create channels through which the clients sell its products and services. 99L is fully equipped to serve the enterprises who are at different stages of technological advancement:

- Distributing products on internet.
- Upgrading existing products using technological advancement.
- Creating innovative products using data analytics.

These technological solutions are not easy to replicate by the enterprises without 360° support system — technological infrastructure and deep customer-behavioural understanding.



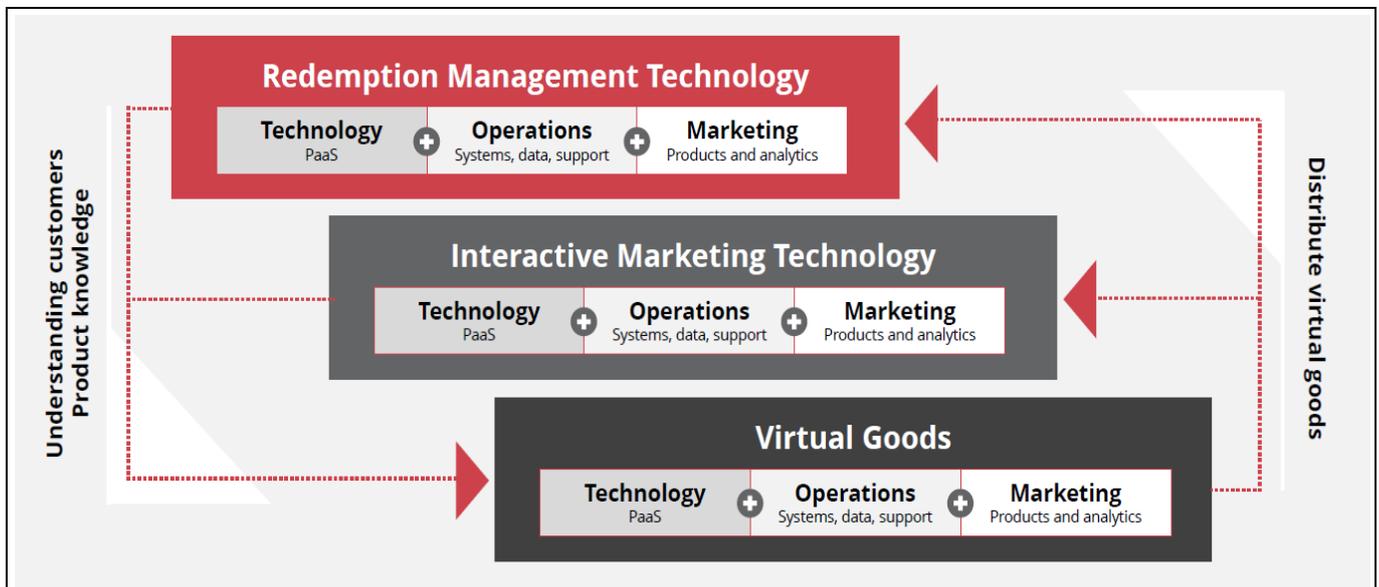
99L has become an integral part of China's digital economy by building a cost-efficient, technically superior ecosystem that cannot be duplicated easily

Building in-house capability is not conducive for big brands

With 10 years of operations across the Chinese financial service industry, 99L has built a digital life ecosystem, whereby it delivers value to its enterprise clients. Through its two competitive technology platforms — Mobile Solutions Platform and Cloud Delivered Solutions Platform — the company enables its business partners to enhance end-customers' loyalty.

However, since technological platforms can be developed in-house by bigger banks and insurance companies, the viability of such a business model is often questioned. Also, since financial institutions are vary of customer data, they are often tend to tilt towards developing in-house capabilities for loyalty programs and digital marketing activities.

Figure 10: Replicating 99L's offerings is neither conducive nor easy



Source: Company

For investors, it is imperative to understand that 99L has the following advantages, which makes it unviable for big enterprises to develop the capabilities in-house:

- **Technological superiority:** 99L's proven platform has a scalable architecture and is well-protected by a series of patents and copyrights. Its standardized light application mobile modules and Cloud-based platforms get integrated seamlessly into the existing ecosystem of the enterprises, making it a preferred solution. Any new platform will have integration issues and will be untested.
- **Advantage of proprietary data:** The depth of industry experience that 99L has accumulated over the years has resulted in a huge wealth of proprietary data. This is leveraged by the company to enhance the power of backend algorithms and operational capability of its tools and systems.
- **Cost efficiency advantage:** 99L provides specialised skill set and takes away the burden of managing a full-time in-house technical team. This provides the necessary tactical and cost advantage. In addition, 99L provides scale benefits in accessing and managing warehousing of virtual products. The inclusion of digital procurement tools provides additional cost efficiency for enterprises.

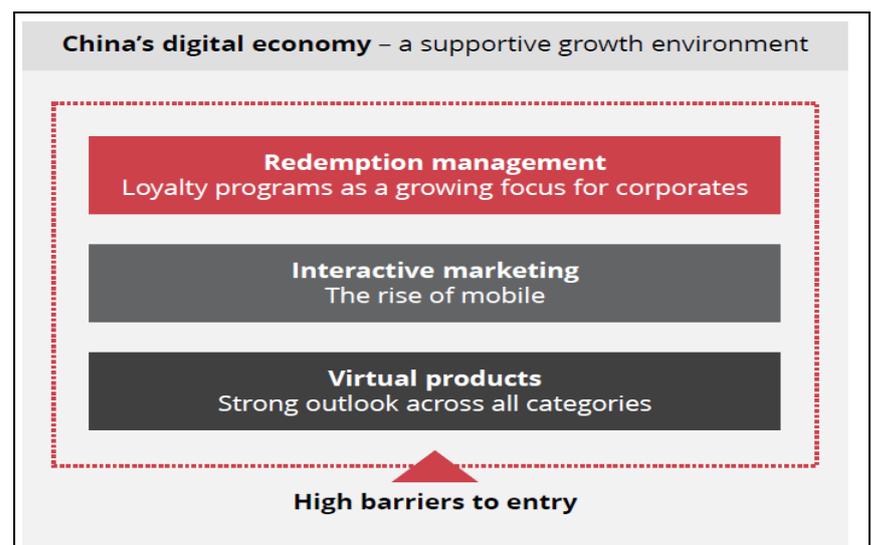


- **Time Efficiency Advantage:** Due to its experience in the field of loyalty technological solutions, 99L has been able to reduce the time gap in developing a new tool. The shorter development time and the ease of customisation (using the standard modules as the base) benefits the company in front of their enterprise clients.

High barriers to entry places 99L in an advantageous position

- Since the beginning of 2021, the Chinese government has issued more than 330 economic and financial policies to prevent systemic financial risks. The **stringent regulatory environment** heightens the barriers to entry for any new entity in the financial sector, especially technological service providers. Increase in restrictions and stricter regulations within the loyalty technology service industry provides long-term benefits to 99L, given its established relationships with enterprises and proven execution capabilities (Figure 11).

Figure 11: High entry barriers makes investment in 99L relatively safe



Source: Company

- Having established its credentials in the Chinese financial service industry, 99L has limited competition in the domain. With 200+ enterprise customers, in both banking and insurance service industry, it basically covers the length and breadth of the sector. The company is a leading technology partner in the digitisation of China's financial services industry. Financial institutions do not change vendors regularly due to the fear of data security. This makes 99L relatively impenetrable, in our view.



Change in business environment a boon

The Chinese government is clamping down on influential businesses

In November 2020, the Chinese began a process of strengthening regulations for tech companies with consumer-facing platforms and improving data privacy & security. Recently, in a statement from China's cabinet, new laws were framed for financial markets and enterprises. The aim is to tighten the law around cross-border flow of data and to check fraudulent practices in the securities market — illegal securities issuance, market manipulation and insider trading. The government has initiated a probe against two of the biggest tech firms operating in China — Didi (controlling most of the ride-hailing market in China) and Alibaba (having a near-monopoly in China's e-commerce space).

This realignment in regulations has made financial institutions and technological companies sceptical, but the smaller and fringe players are expected to benefit from this crack-down. These regulations are mainly aimed at checking the one-party businesses from completely dominating their markets (Figure 12 and Figure 13).

Latest regulations are standardising new-age technology service providers

The Chinese economy has been plagued with multiple fundamental issues due to the monopolistic enterprises:

- a) **Falling consumer rights:** With most of the top tech company's being owned and operated by a select few group, consumers were feeling the effect of not having enough options to choose from when it came to various digital services.
- b) **Lack of control over data flow:** The big enterprises were accused of not doing enough to maintain data privacy and security as their multinational operations were expanding. This was posing a risk to national cybersecurity.
- c) **Excess debt:** China's enterprises and economy have been dealing with the issue of excessive and uncontrollable debt for a long time now. Any further delay would have affected the fundamentals of the entire banking system.
- d) **Economic inequality:** According to the World Bank, China is one of the biggest unequal major economy. Its Gini coefficient — a popular measure of inequality — has increased significantly over the past half century. It was becoming very important to let the existing and flourishing of smaller and fringe entrepreneurs.

The introduction of two new laws, i.e. Personal Information Protection Law (PIPL) and antitrust law, overrides the existing piecemeal regulation. These new organised rules are aimed at containing the digital dominance by select few players. The government's push intends to restore the order of market competition and will thrust for fair transactions in the market.

These new laws and regulations might act as a blip in the exponential growth of Chinese technology companies. In the medium to long term, however, this will bring in more competition and restore the confidence of both the consumers and small and medium enterprises. This transformation will additionally support 99L in expanding its operations into other domain areas, such as mobile gaming, online leisure and entertainment,

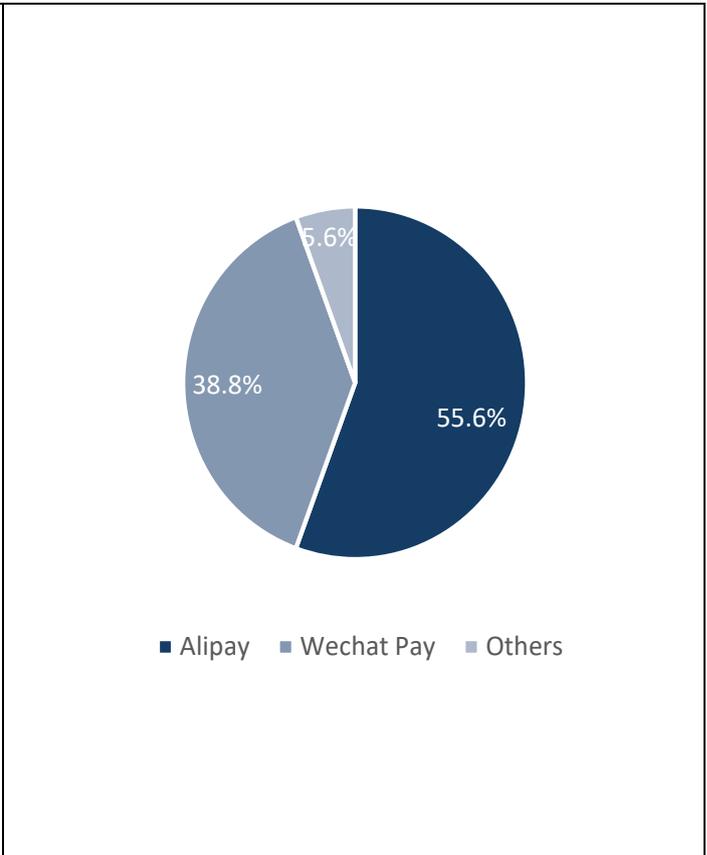
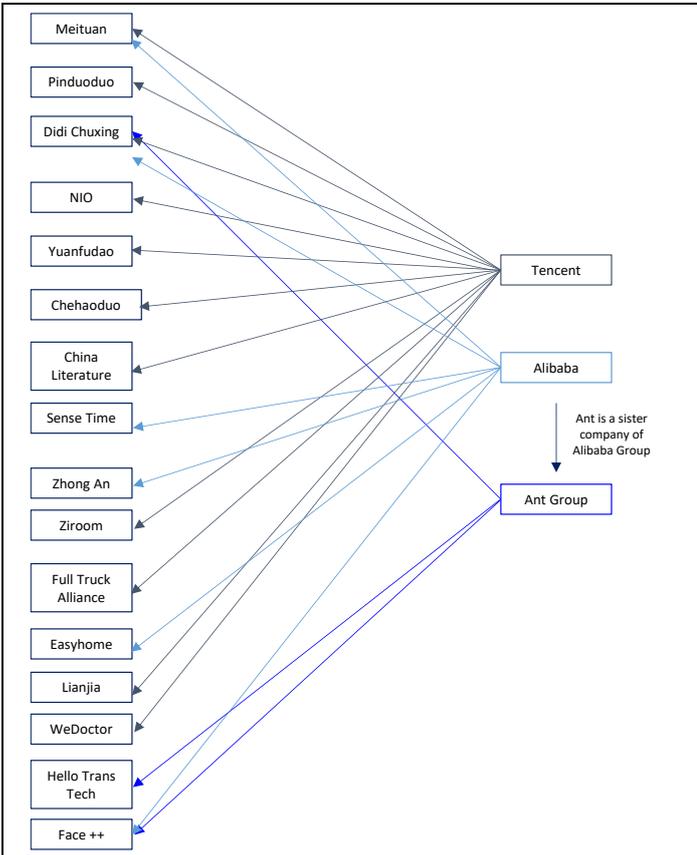
The government of China has introduced Personal Information Protection Law (PIPL) and the new antitrust law in order to restraint the authoritarian enterprises



telecommunication, digital coupons etc., without the fear of being cornered by the monopolistic players.

Figure 12: Big tech firms controls most of the new-age digital business in China

Figure 13: China’s digital payment market has a duopoly



Source: Bloomberg, Al-Jazeera, Pitt Street Research

Source: Bloomberg, Al-Jazeera, Pitt Street Research

New regulations by CBIRC will reduce current chaos in the Chinese insurtech industry by removing unethical enterprises from the system

New regulations for internet insurance companies

Apart from the crackdown on technology companies, Chinese regulators have also brought insurtech companies under compliance requirements. The China Banking and Insurance Regulatory Commission (CBIRC) is expected to regulate internet insurance service providers by forcing them to end improper marketing and pricing practices.

Contrary to general belief, it is expected that these regulations will have long-term benefit to the industry. Apart from enhancing consumer experience the regulations will reduce systematic risk in the financial/insurance industry by removing unlicensed distributors and unprincipled incubators.

We believe that the new regulations will have methodical benefits to licensed service providers like 99L.



Virtual Goods: China's economy is rapidly digitising

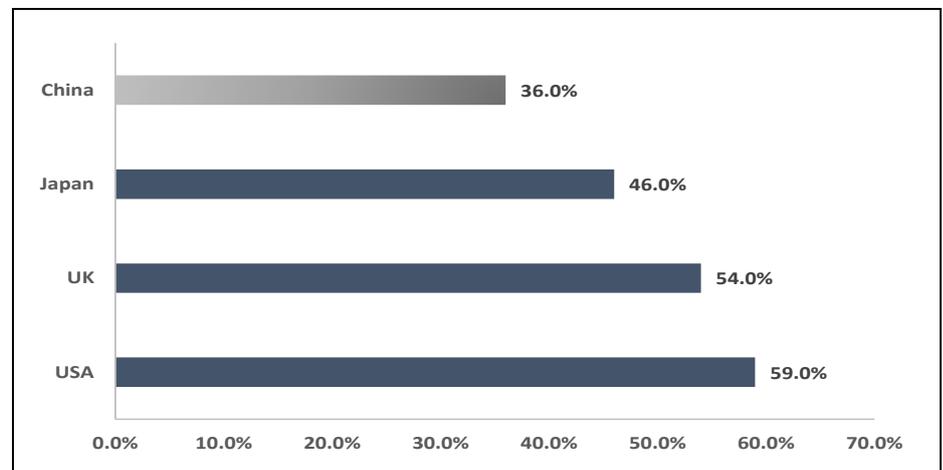
China's digital economy's phenomenal upside potential

Digital economy is expected to account for more than 50% of China's GDP by 2025

According to the China Academy of Information and Communications Technology (CAICT), China's digital economy ranks second in the world and was valued at US\$6.1 trillion in 2020. However, the digital economy represented only 36% of China's GDP compared to America's 59% in 2019, signalling a phenomenal upside potential.

Further, China's digital economy grew by 9.6% Y-o-Y in 2020 and is forecasted to account for about half of China's GDP by 2027, becoming the key driver for the country's economic growth (Figure 14).

Figure 14: Ratio of digital economy to GDP (2019, %)



Source: Company, Pitt Street Research

We expect to see further growth in China's digital economy, reinforced by the following factors:

- **Government support:** To build a friendly ecosystem for a digital economy, the Chinese government has been consistently providing financial support for the development and growth of start-ups in the areas of fintech (financial services + technology), blockchain, virtual reality, autonomous driving, wearable technologies, distant learning, drones and robotics, payment system, Cloud computing, and machine learning.
- **Increasing penetration of mobile users and mobile payments:** China has the largest online shopper population with over 1 billion mobile Internet users. According to China Statistical Yearbook (CSY) 2020, 25% of the national retail sales took place online in 2019, amounting to US\$1.8 trillion; 90% of this revenue was accounted by mobile-based payments.
- **Increasing internet penetration:** The internet penetration rate reached 71.6% in China as of June 2021. China has the world's largest optical fibre, 4G and 5G mobile broadband networks, with the number of 5G terminal connections exceeding 365 million. Internet penetration in China's rural areas rose by 3.3% half-on-half to reach 59.2% in H1 2021.



Interactive marketing is the new currency of digital economy

In China, the net promoter score awarded by customers who have interacted with their insurer at least once was 59 % for P&C insurance and 57% higher for life insurance

Loyalty management programmes are becoming exceedingly important for insurance firms in China. The banking and financial services industry in China, particularly insurance, has been adopting loyalty management programmes and disruptive digital innovations at a much faster rate compared with any other related services in the country. As a result, insurers are now directly engaging with their customers more frequently than they did in the past and aiming to develop offerings that target their remaining needs.

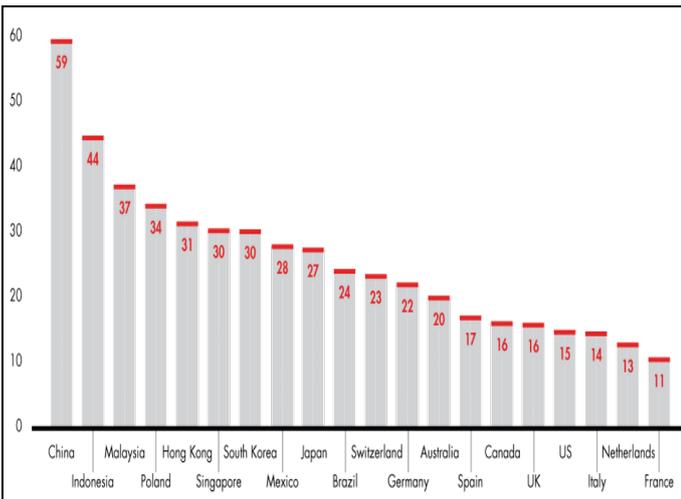
Increasingly, insurance companies have been facing challenges in retaining their customers as insurance products are, in most cases, becoming commoditised and price is emerging as a key purchase criterion. Further, due to the growing trend of online purchases, there is less face-to-face interaction between the customers and the sellers.

Loyalty management programme providers are then leveraged to reward the customers, post interaction with the insurer, by providing relevant and timely promotions to generate loyalty and satisfaction. Although channels and delivery models vary, promotions that leverage positive reinforcement strategy to spark consumer emotion succeed in driving the desired behaviour.

Engagement campaigns such as raffles, instant wins and contests are integrated with media, CRM and personalisation strategies to reward the desired behaviour. Consumers also earn points based on monthly/annual spend or for recommending a friend; the points can be redeemed for opportunities to participate in the engagement campaigns

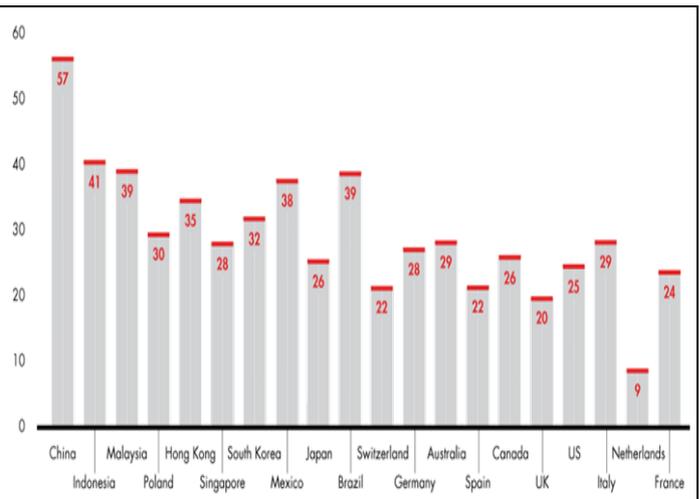
Further, virtual goods such as membership credits, in-app currencies, top-up credits (talk and data) and digital coupons for services have become the new marketing currency for rewarding customers.

Figure 15: Percentage point difference in NPS awarded by customers with at least 1 interaction with their insurer for P&C insurance



Source: Bain & Company, Pitt Street Research

Figure 16: Percentage point difference in NPS awarded by customers with at least 1 interaction with their insurer for life insurance



Source: Bain & Company, Pitt Street Research

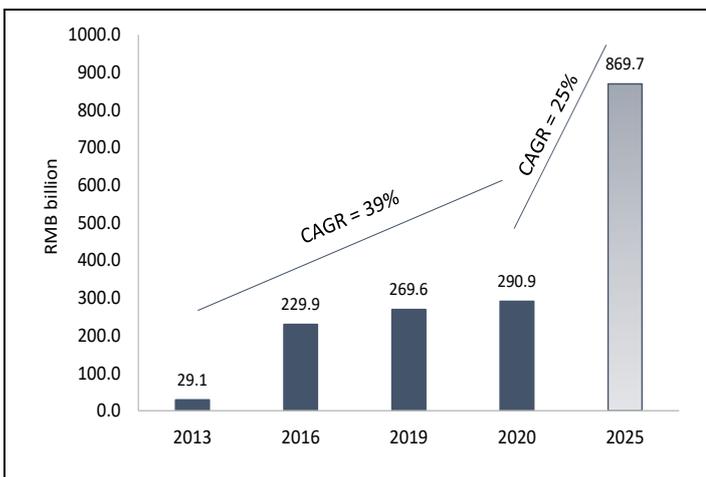


Rapid penetration of online insurance in China augments substantial growth for 99L

According to Swiss Re and Statista, the online premium revenue in China has increased at a CAGR of 39% over the period of 2013-2020, reaching RMB290.9bn. With penetration of online insurance still at a lower rate of 4.5% in China, the growth potential for the same remains intact. This exponential growth can be attributed to the advancement in the required technological ecosystem, increase in consumer’s risk awareness and a more efficient internet infrastructure across the country.

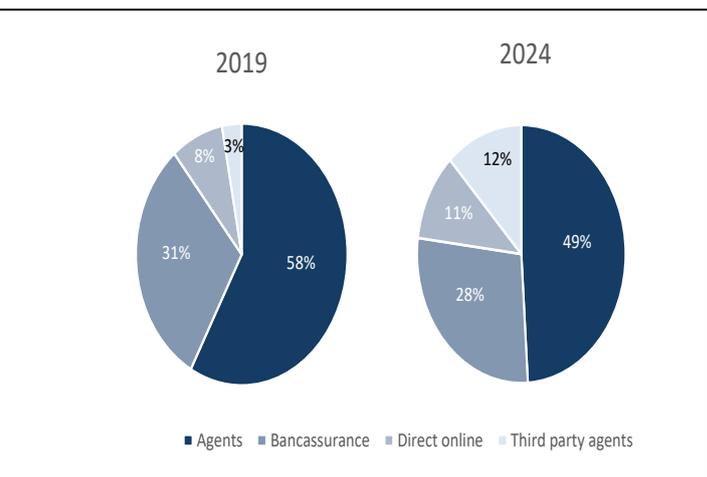
Post COVID, the lockdown has hampered sale agent movement. Consequently, consumers are shifting away from the predominant distribution channel and increasingly seeking contactless channels for such services.

Figure 17: China’s online insurance premium growth is expected to continue



Source: Swiss Re, Statista, Pitt Street Research

Figure 18: Direct online and third-party distribution channels to expand contribution in total insurance sales



Source: Tellimer Research, Pitt Street Research

Through its long-standing relationship with China’s top insurance underwriters and technological advancement, 99L’s insurance brokerage operations are expected to benefit from the rapid growth in online insurance.

Platform-as-a-Service (PaaS) demand is rising

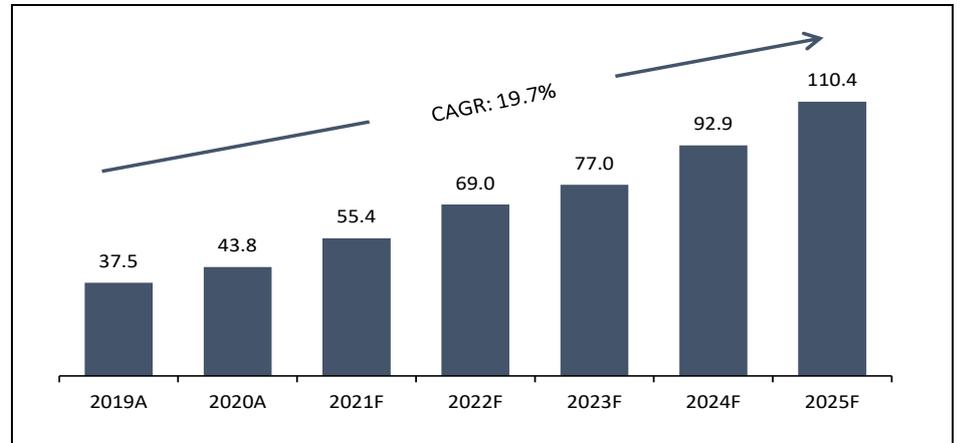
Digitalisation demands expanded Cloud-based applications

The global Cloud-based PaaS market was valued at ~US\$43.8bn in 2020 as per estimates by Gartner¹. This market is expected to grow at a staggering CAGR of 19.7% during 2019–2025 to reach ~US\$110.4bn by 2025 (Figure 19). Thus, the market will increase 2x times by 2025, as compared with the 2021 level. PaaS is amongst one of the fastest-growing segments of the public Cloud services market and is projected to see a jump of 26.4% Y-o-Y in 2021. The rising demand for Cloud-native applications and the accelerated digitalisation due to COVID-19 are the key drivers of the PaaS market.

¹ See 'Forecast: Public Cloud Services, Worldwide, 2019-2025' by Gartner.



Figure 19: Global Cloud-based PaaS market size (US\$bn)



Source: Gartner, Pitt Street Research

In 2020, Cloud adoption was accelerated significantly due to the increased demand for PaaS, driven by remote working policies across the world. The employees were required to have access to high-performing, content-rich and scalable infrastructure to perform their duties which are dependent on modernised and Cloud-native applications.

The ability to use on-demand, scalable Cloud models to achieve cost efficiency and business continuity has been the stimulus for organisations to fast-track their digital transformation plans in the post COVID-19 era.

According to IDC², China emerged as the world's fastest-growing market for PaaS in H1 2021, growing by 53.9% Y-o-Y; further, the country's market for public Cloud services reached a value of US\$12.31bn during the first 6 months of 2021. Demand for operational workload Cloud migration and Cloud-native application development will continue to drive investments in China, as several organisations have accelerated their digital transformation timelines.

Following factors are expected to lead growth in the Chinese PaaS market:

- Increasing standardisation of digital technologies.
- Greater business use of mobile applications.
- Growing popularity and usage of web-like interfaces.
- Increasing broadband access and speed.

APAC loyalty management market to boom in the next decade

The APAC loyalty management market was valued at ~US\$945.1m in 2020 as per estimates by Mordor Intelligence³. This market is expected to grow rapidly at a CAGR of 22% over 2019–2026 to reach ~US\$3.1bn by 2026 (Figure 20). Thus, the market will more than triple itself by 2026 as compared with the 2020 level. The growing usage of social media, increasing internet penetration, expanding e-commerce market and offline sales disruption due to COVID-19 are the key drivers of the loyalty management market.

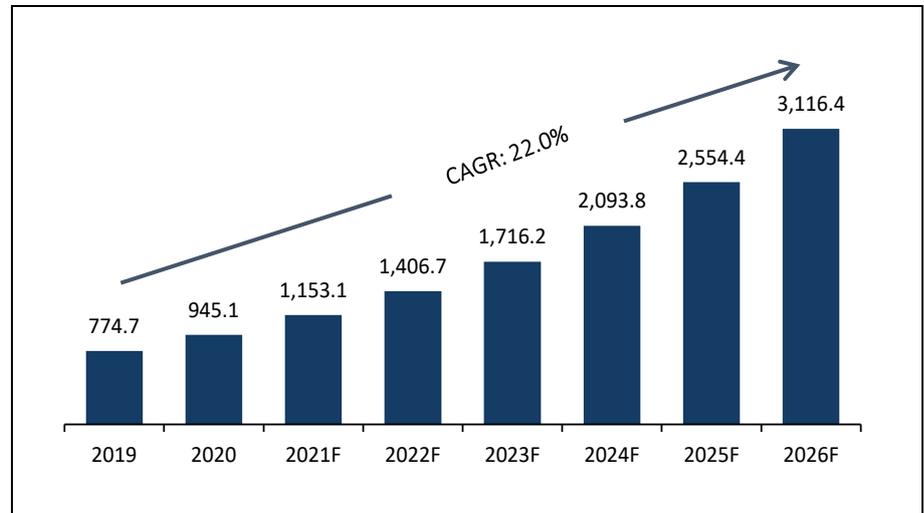
China PaaS market witnessed a 53.9% Y-o-Y growth in H1 2021

² See 'China public Cloud market 2021; IaaS+PaaS grew by 49%' by China Internet Watch.

³ Source: Mordor Intelligence, 'APAC Loyalty Management Market - Growth, Trends, COVID-19 Impact, and Forecasts (2021 - 2026)'.



Figure 20: APAC loyalty management market size (US\$m)



Source: Mordor Intelligence and Pitt Street Research

Increasing demand for consumer analytics

The global consumer analytics market was valued at ~US\$5.24bn in 2020 as per estimates by Verified Market Research⁴. This market is expected to grow at a staggering CAGR of 19% during 2020–2028 to reach ~US\$20.8bn by 2028, quadrupling during the period.

The growing usage of social media, increasing demand for personalisation and developments in the field of data analytics are the key drivers of the consumer analytics market.

As highlighted before, interactions with customers play a critical role in customer retention and loyalty. The quality of the interaction is crucial, as customers who are satisfied by the interaction/experience tend to be repeat customers. This is where consumer analytics comes into play, providing a holistic view of the customer’s preferences.

The value of consumer data is maximised by incorporating first-party data (product, customer life cycle, customer value) with third-party data (socio-demographic variables, transactional data) to create a 360°view. This data is used to identify and analyse unique target segments and create differentiated engagement strategies to drive renewal and upsell all segments.

Technology spending in financial service sector to remain high

China’s fintech industry is highly dynamic and a fast growing sector. According to Institut Montaigne, a non-profit organisation that is engaged in drafting public policy proposals, in 2018 China had ~US\$25.5bn in fintech investment, ~50% of the total global technology investment in financial services globally. Its biggest competitive advantage lies in the unparalleled scale of data usage. Fintech services have now become an integral part of daily life in China. The participation of non-traditional players has resulted in heightened competition, increased investment and fundamental changes to the Chinese financial services industry. Consequently it is expected that, going forward, technology spending in the financial service industry will continue to remain high in the country (Figure 21 and Figure 22).

According to Institut Montaigne, ~85% of China’s digitally active populations uses a least two fintech services

⁴ Source: Verified Market Research, ‘Customer Analytics Market Size and Forecast’.



Figure 21: Fintech spending in China to remain high

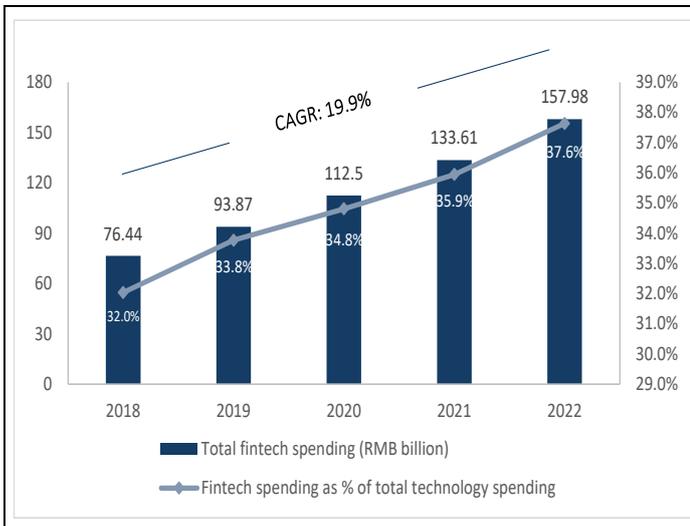
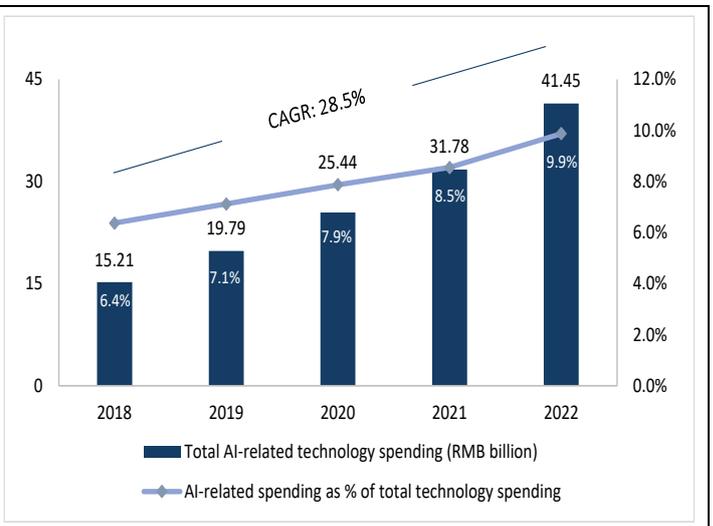


Figure 22: AI-related spending to constitute bigger portion



Source: Insider Intelligence, Pitt Street Research

The consistent jump in technological spending by the financial service industry is expected to benefit 99L, increasing its ability to engage and empower clients through its platform solution services.

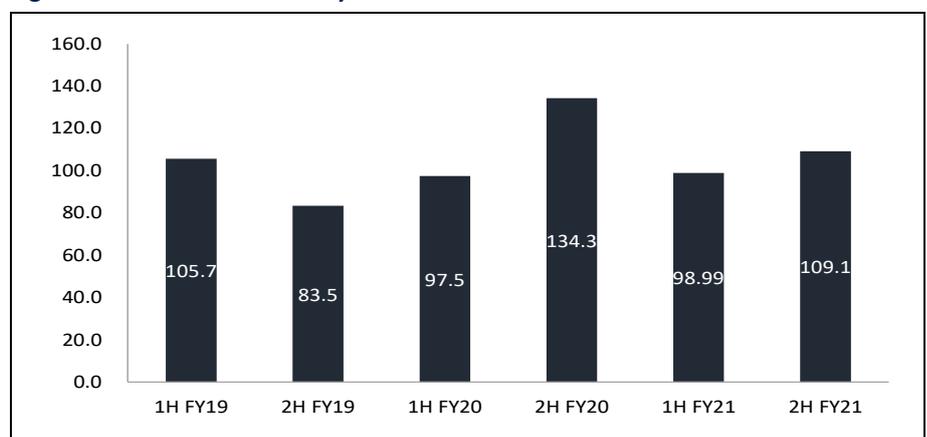
99L has a stable sales profile

Despite the outbreak of the COVID-19 pandemic and its sporadic recurrence, 99L was able to register strong top-line and bottom-line growth. Its diverse and multi-functional services and products helped the enterprise attract new customers. Since its comprehensive products are integrated into the existing ecosystem, the bulk of its revenue is recurring and long-term in nature (Figure 23). Due to long-standing engagement, 99L has a partly consistent revenue operating model, which provides stable and predictable cash flows and higher customer life-line value.

In addition, 99L also receives additional revenue from the secondary offerings, such as the sale of merchandises on its marketplace platform and online insurance brokerage.

For FY2021, 99L had reported insurance brokerage service revenue of RMB154.2m, +72% YoY

Figure 23: 99L has consistently maintained its revenue



Source: Pitt Street Research



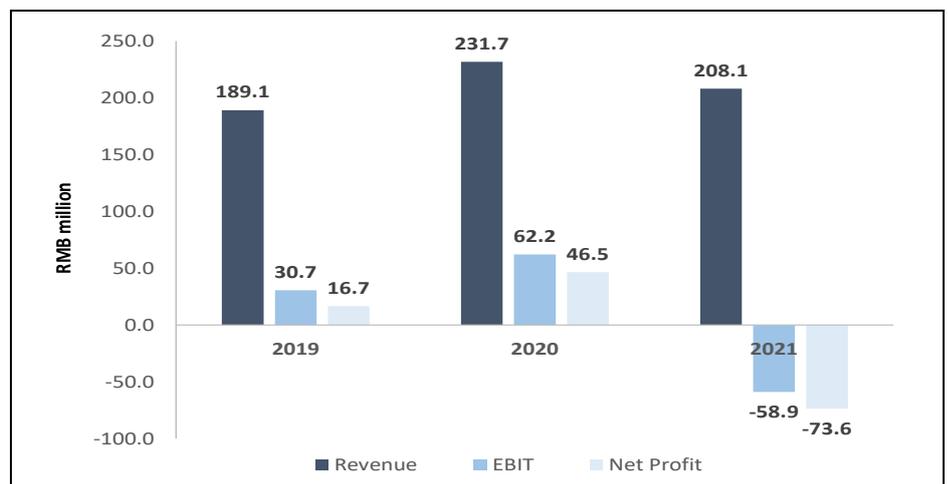
FY2021 results are a blip

General economic slowdown, COVID-19 restrictions and imposition of stringent regulations by the Chinese government on digital operations of big financial institutions, impacted 99L's operations in FY2021. Although group revenue was down 10% YoY, we believe this was a relatively solid outcome given the unique headwinds faced by the company in the past year.

Further, revenue from insurance brokerage operations continues to grow strongly (4.1x growth in the last two years) and is expected to maintain this trajectory, making it the growth driver for the group in FY2022.

On the profitability front, it is important to note that the higher-than-expected decline in profitability was mainly due to two one-off negative adjustments (Figure 24). In addition, as 99L makes higher investments in marketing and channel development for the expansion of its online insurance brokerage operations, the bottom line is expected to stay subdued till FY2022.

Figure 24: Reported profitability was hit in FY21



Source: Pitt Street Research

Growth trajectory likely to return from FY2022

Strong balance sheet to facilitate expansion

Currently, 99L is trying to rewind the wheels of growth by increasing the portfolio of payment services, adding new features in the platform and ensuring channel development for online insurance business expansion. These levers of growth will require consistent investment.

The last few quarterly results have shown that 99L has been reducing its borrowing levels. With consistent revenue growth and cash generation from the existing business, the current leverage levels of the company will become self-sustaining. Indeed, we believe that given 99L's balance sheet strength (Figure 25), it has more room for incurring capital expansion without having to worry about meeting financial obligations. This also provides 99L with the alternative of going ahead with bolt-on acquisitions for bridging potential technological and channel gaps.

With consistent investments, technological advancement, entry into new end-industries, expansion of channel development and higher penetration of

In the long run, 99L is expected to reap the benefits of investments planned for the next 2-3 years



its online insurance operations, 99L is expected to achieve strong revenue growth—16.6% CAGR over 2021-2026 (Figure 26).

Figure 25: Strong balance sheet will support future investments

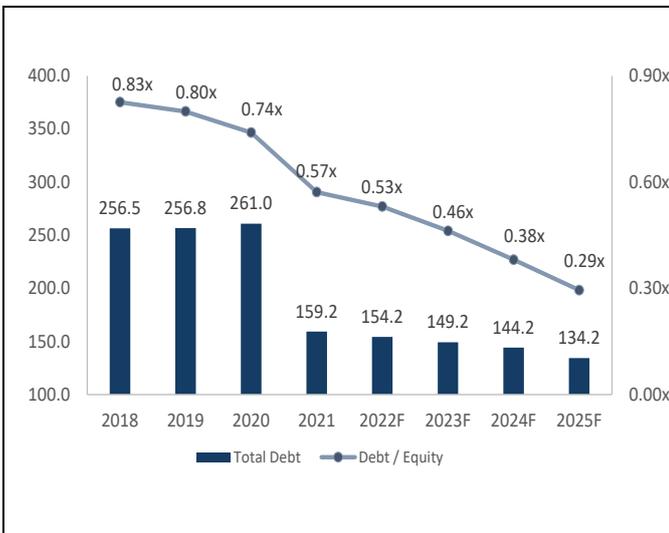
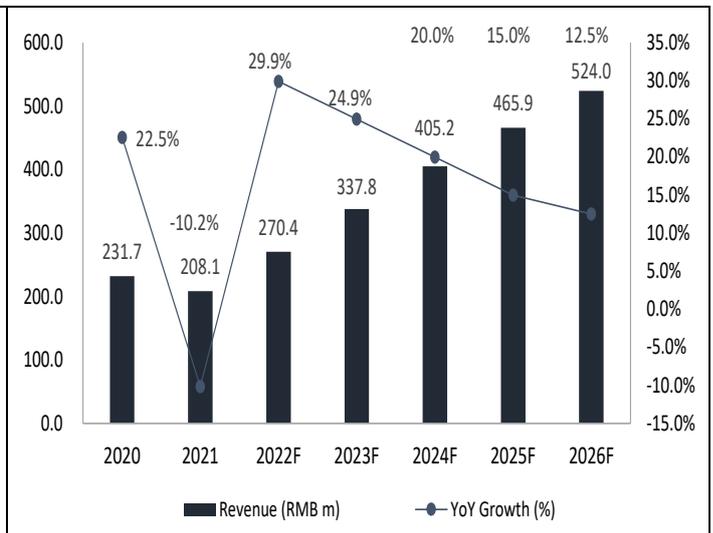


Figure 26: 99L is expected to report strong revenue growth over FY2022-2026



Note: Total debt includes bank borrowings, contract liabilities and lease liabilities

Source: Pitt Street Research

Profitability is expected to rise again

Though the company has been witnessing top-line growth for the past few years (barring FY2021), it achieved operational breakeven only in 2019. This is primarily due to relatively higher expenses in the wake of marketing and development costs.

While FY2021 witnessed reduced profitability, we believe that going forward, as 99L achieves market expansion by gaining higher wallet share from enterprises, enters new end-industries and expands online insurance brokerage operations, its operating expenses will stabilise. As a result, we estimate that the company will regain its profitability momentum from FY2022 (Figure 27).

Figure 27: Profitability profile of 99L

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue growth	5.3%	46.8%	22.5%	-10.2%	29.9%	24.9%	20.0%	15.0%	12.5%
EBITDA margin	7.7%	21.2%	31.9%	NM	11.7%	16.8%	21.2%	24.3%	27.6%
EBIT margin	4.7%	16.2%	26.8%	NM	9.2%	15.2%	20.0%	23.3%	26.7%
Profit margin	NM	6.9%	13.6%	NM	4.4%	9.6%	13.8%	16.5%	19.6%

Source: Pitt Street Research



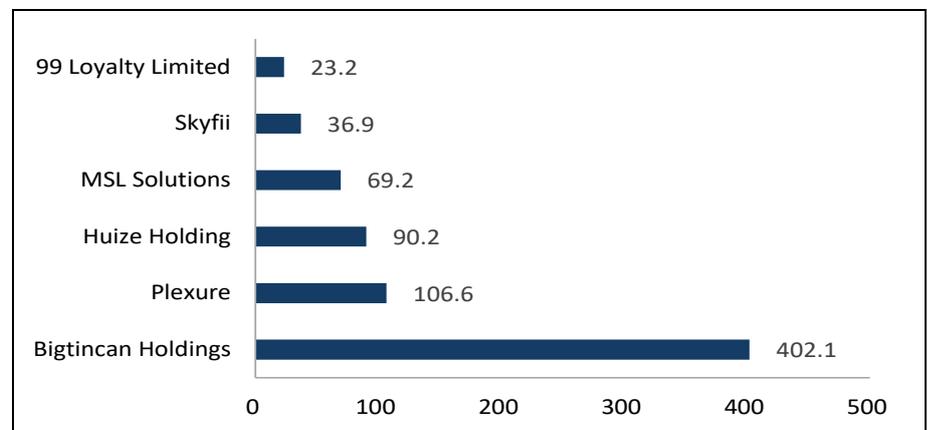
Competitive landscape

99L competes with multiple players within PaaS space

99L competes with global providers of customer loyalty technology platform and interactive marketing solutions. Additionally, 99L competes with China-based online insurance brokers. China's favourable market dynamics for the digital economy should upsurge the growth for the 99L. We believe the following ASX-listed and China-based platform companies represent the competitive landscape of the company in the technology service industry:

- **Bigtincan (ASX:BTH):** Bigtincan is a sales enablement automation company offering solutions for marketing, mobile sales enablement, managed, and channel sales. Bigtincan offers a platform solution, which combines content, communication, and interaction insights to provide automated solutions.
- **Plexure Group (ASX:PS1):** Plexure offers enterprise solutions to retail brands. Through its platform, loyalty programs and digital toolkits, Plexure supports its clients in evaluating, analysing and acting on their customer data at every stage of the product lifecycle.
- **Skyfii (ASX:SKF):** Skyfii is a software technology company that provides global analytics and data-driven marketing products. The Company's Cloud-based solution and the IO Platform analyse, measure, predict and influence customer behaviour, to drive operational efficiencies, loyalty, and sales growth. They have operations in the UK, North America, South America, and South Africa.
- **MSL Solutions (ASX: MSL):** MSL Solutions is engaged in the development, sale, and support of software and services to provide integrated solutions for organizational membership. The company's platform focuses on three core areas: Point of Sale, Customer Engagement & Membership, and Data & Analytics.
- **Huize Holding (NASDAQ:HUIZ):** Based in China, Huize Holding is an online insurance intermediary service platform. The company distributes insurance products through its proprietary platform underwritten by partner firms. It operates only in China.

Figure 28: 99L's market capitalisation* relative to key peers



Note: *As of 4 March 2022

Source: Capital IQ, Pitt Street Research



Valuation: 99L is a “de-risked” story

To derive 99L’s long-term value, we have employed a weighted average valuation methodology based on equal weights to a peer-group-based relative valuation and a DCF calculation.

Peer group valuation suggests 99L is significantly undervalued

Given that 99L faces stiff challenge from diverse PaaS players, we have considered companies delivering to all end-industries. Our peer-group consists of ASX listed Cloud-based platform service providers, digital marketing companies, organisations providing analytics and data-driven software products as well as customer experience enhancing service providers. We have also considered China-based online-insurance brokers.

While the market is fragmented, all these companies have a well-diversified suite of services. They also provide solutions to a variety of end-industries and are significantly larger in size. We believe that 99L, with its restrictive operations, supporting only one end-industry and in a geography which is currently undergoing a lot of regulations changes, should trade at significant discount to the average multiple (Figure 29).

Figure 29: Peer Multiples[^]

Company Name	Ticker	M-Cap (A\$ m)	EV / Sales			
			2020	2021	2022F	2023F
Bigtincan Holdings	ASX:BTH	402.1	13.2x	6.6x	2.9x	2.4x
Plexure	ASX:PS1	106.6	4.5x	4.1x	1.8x	1.6x
Skyfii	ASX:SKF	36.9	2.3x	1.7x	1.1x	0.9x
MSL Solutions	ASX:MSL	69.2	3.8x	NA	-	-
Huize Holding	NASDAQ:HUIZ	90.2	0.5x	0.3x	0.2x	0.1x
Average		141.0	4.8x	3.2x	1.5x	1.3x
Median		90.2	3.8x	2.9x	1.4x	1.2x

Note: [^] As of 4 March 2022

Source: Capital IQ, Pitt Street research

Taking the average FY2022 EV/Sales of 1.5x from the peer-set, and applying significant discount, we arrive at a valuation of A\$0.08 per share in base case, and A\$0.21 per share in our optimistic case (Figure 30).

Figure 30: Peer group valuation: Base case

Equity value determination (A\$' 000 unless specified)	EV / Sales
Sector Average Multiple	1.5x
Discount/ Premium	-60.0%
Sales 2022F	270.4
Implied EV	161
Net debt (cash)	65
Minority interest	-
Provisions	-
Equity/Book value	96
Diluted Shares (m)	1.2
Implied price (A\$)	0.08
Current price (A\$)	0.028
Upside (%)	193.1%

Source: Pitt Street Research

Bull case

Equity value determination (A\$' 000 unless specified)	EV / Sales
Sector Average Multiple	1.5x
Discount/ Premium	-35.0%
Sales 2022F	281
Implied EV	272
Net debt (cash)	22
Minority interest	-
Provisions	-
Equity/Book value	249
Diluted Shares (m)	1.2
Implied price (A\$)	0.21
Current price (A\$)	0.028
Upside (%)	660.1%



DCF calculation suggests a substantially higher value

Our DCF model yields a 10.3% WACC for 99L (reflecting a 19.5% cost of equity and a 4.2% post-tax cost of debt). Applying this discount rate to our free cash flow projections through FY2031 and using a terminal growth rate of 2.0% yields a value of A\$0.12 per share in base case (Figure 31).

Figure 31: DCF valuation: Base case

99 Loyalty Valuation (A\$m)	
Enterprise Value (RMBbn)	0.6
Net debt (cash) (RMBbn)	0.1
Minority Interest	-
Other Investments	-
Equity value (RMBbn)	0.5
Share outstanding (Diluted)	1.2
Implied price (A\$)	0.10
Current price (A\$)	0.028
Upside (%)	253.5%

Bull case

99 Loyalty Valuation (A\$m)	
Enterprise Value (RMBbn)	1.0
Net debt (cash) (RMBbn)	0.0
Minority Interest (m)	-
Other Investments (m)	-
Equity value (RMBbn)	1.0
Share outstanding (Diluted)	1.2
Implied price (A\$)	0.19
Current price (A\$)	0.028
Upside (%)	569.6%

Source: Pitt Street Research

Fair value of A\$0.09-0.20 per share

Our base case value of A\$0.09 per share has been derived using a weighted average valuation methodology, which assigns equal weight to our relative valuation and our DCF calculation (Figure 32). Our bull case calculation results in a valuation of A\$0.20 per share. Both the cases imply substantial upside from the current share price.

Figure 32: Weighted average valuation: Base case

Base Case	Weights (%)	Share price (A\$)
DCF	50.0%	0.10
Relative valuation	50.0%	0.08
Composite Value		0.09
Current Price		0.028
Upside/ Downside (%)		223.3%

Bull case

Bull Case	Weights (%)	Share price (A\$)
DCF	50.0%	0.19
Relative valuation	50.0%	0.21
Composite Value		0.20
Current Price		0.028
Upside/ Downside (%)		614.8%

Source: Pitt Street Research

Re-rating of 99L

99L's stock is currently trading below our base case valuation. We see three factors helping to re-rate the company into our valuation range:

- Acceleration of digital transformation in the financial services industry (banks, insurance), leading to further increase in spending on loyalty and engagement programs.
- Swift expansion of channel penetration, leading to an increase in online insurance brokerage operations.
- Increased pace for adaption of virtual goods and services in China.

Risks

The main risks that we see while investing in 99L:

- Execution risk: The majority of the future growth for 99L is expected to come from online insurance brokerage operations and entry into new end-industries. Any interruption in channel development, lack of further advancement in the platform features and delay in offering the new service of aggregate digital payment will jeopardise the investor sentiments.
- Regulatory risk: Any further increase in the stringent regulations related to economic and financial policies issued by the Chinese government to prevent systematic risk may impact the revenue profile of the company.
- Economic downturn in the focussed industry: 99L is expected to continue generating a significant portion of revenue from the financial service industry. Considering that the threat of COVID-19 is still looming, any uptrend in pandemic casualties will directly hamper banks and insurance, i.e. NPAs and claims. The resulting downturn could hamper 99L's growth potential.
- Geographical concentration: Operations of the company are fully concentrated in China, which restricts the global growth opportunities.
- Competition: As the Chinese PaaS market expands, larger (regional and foreigner) service providers will also increase their presence in the financial service industry. 99L will have to counter the financial and technological power of competitors to retain enterprise clients.



Leadership has diverse experience base

The board and management team (Figure 33) of 99L has diverse experience across finance, e-commerce, mobile communication, enterprise storage and payment systems. We believe 99L's leadership has the relevant expertise to lead the company in achieving its strategic objectives.

Figure 33: 99L's leadership composition

Board of Directors		
	Name and Designation	Profile
	Ross Benson Chairman, Non-Executive Director	<ul style="list-style-type: none"> – Mr. Benson has over 34 years of experience in the Australian financial services industry and over the past 15 years, he has spent significant time in China originating inbound and outbound investment activities. – He has vast experience in establishing businesses across wealth management, private equity, property syndication and structured financial products. – He graduated with a degree in Commerce from the University of Technology, Sydney.
	Amalisia Zhang Non-Executive Director	<ul style="list-style-type: none"> – Ms. Zhang founded 99L in 2011. – She has significant experience in Chinese e-commerce and mobile payments sectors. – Ms. Zhang has an MBA from the Bath University, UK.
	Dr. Tao Wen Chief Technical Officer, Executive Director	<ul style="list-style-type: none"> – Dr. Wen has vast experience across science and technology sectors, and has been serving as the Chief Technical Officer since the company's establishment. – Prior to 99L, he was associated with IBM Global Business Services and Smartpay. – He holds a PhD in science from the Fudan University, China.
	Simon Woodfull Independent Non-Executive Director	<ul style="list-style-type: none"> – Mr. Woodfull has over 20 years of experience as a senior executive in various financial services and loyalty technology companies. – He has worked across diverse aspects of business areas including operations, sales and marketing, finance, legal and human resources. – He has a degree in Business Management from the Victoria University, Melbourne.



	<p>Haoming Yu Independent Non-Executive Director</p>	<ul style="list-style-type: none"> – Mr. Yu has over 41 years of experience in finance and banking industries. – He has held senior positions in the past across several companies including Shan Co Holding Ltd, Bear Stearns (Asia) Ltd, Shanghai International Trust & Investment Co. Ltd and Bank of China.
	<p>Christopher Ryan Independent Non-Executive Director</p>	<ul style="list-style-type: none"> – Mr. Ryan has deep expertise in mergers and acquisitions, and initial public offerings. – He has advised ASX listings since 1986. – He is currently also serving as Non-Executive Director of Fintech Chain Ltd (ASX:FTC) and Investorlink Group Ltd. – He holds a Bachelor of Financial Administration from the University of New England, Armidale.

Senior Management Team		
	<p>Yundong Sheng CEO</p>	<ul style="list-style-type: none"> – Mr. Sheng has more than 15 years of experience in financial and insurance businesses as well as strategic management. – Prior to 99L, he held senior management positions in well-known enterprises overseas for more than seven years.
	<p>Henry Chen CFO and Executive Director</p>	<ul style="list-style-type: none"> – Mr. Chen has over 20 years of experience in finance and accounting roles. – Prior to 99L, he was associated with Vtion Wireless Technology AG, Vesta China and Arthur Andersen. – He is a Certified Public Accountant (CPA) and a member of the Chinese Institute of Certified Public Accountants (CICPA) and the Association of Chartered Certified Accountants (ACCA).

Source: Company



Appendix I – 99L’s Intellectual Property

99L’s affiliate firm – Shanghai Handpal Information Technology – has filed patent applications pertaining to 99 inventions in China. While most of these pertain to broadly applicable data transfer and integration systems, 36 patent families pertain to data-handling systems that may be used in the company’s products.

None of these patent applications has been granted or filed outside of China. Key technology themes covered by these patents include the following:

User-specific Data Management Systems

These patent applications disclose methods to distribute and manage customer account data, including account passwords, one-time-passwords (OTPs) and loyalty cards-related data. Key innovations disclosed in these patent applications include quick, web-based systems that distribute loyalty-card-related data in batches, OTP-generation software that can generate different types of verification codes for different users (for example, generation of more complex codes when fulfilling potentially fraudulent requests) and simpler methods to share duplicate card-related data with customers. The key patent applications that cover such software are listed as follows:

- CN104468119 B *A one-time password authentication system and authentication method*, priority date 21 November 2014, invented by Huang-hua Xiao.
- CN104899523 B *A card data with uniform introduction method*, priority date 29 June 2015, invented by Bao Lingming.
- CN106203825 A *recharging application management system and method*, priority date 08 July 2016, invented by Tie-qiao Lei.
- CN106888086 B *System and method for managing account password*, priority date 13 February 2017, invented by Xiao-ben Zhang.
- CN108242980 B *A system and method for retransmitting card density information*, priority date 02 January 2018, invented by Lin-feng Sheng.
- CN111597538 A *Method and system for generating verification code*, priority date 02 April 2020, invented by Tie-qiao Lei and Ping Cao.
- CN111988274 A *Verification method and device of account number information*, priority date 14 July 2020, invented by Wei-zhong Gao.
- CN113643090 A *System and method for carrying out card density batch distribution*, priority date 09 July 2021, invented by Tie-qiao Lei.

Ecommerce Transaction and Virtual Inventory Management Systems

These patent applications disclose software and algorithms that can be used to streamline the management of ecommerce platforms and enhance user experience. Key innovations disclosed in these patent applications include virtual inventory management systems that alert a user about products that are out of stock and software that facilitate quick processing of transaction data in batches during peak season/flash sales. The key patent applications that cover such software are listed as follows:

- CN105894366 A *A spike-type transaction processing system and method*, priority date 22 April 2016, invented by Shu-xin Jiang.



- CN111199372 A *A virtual inventory management system and method for electronic product*, priority date 30 December 2019, invented by Pan-pan Liu.
- CN111401865 A *A payment gateway system*, priority date 03 April 2020, invented by Cheng Wang and Ping Cao.
- CN113633967 A *Management system and method of virtual goods*, priority date 09 July 2021, invented by Tie-qiao Lei.

Invoice/Bill Management Systems

These patents disclose new software that enables efficient handling of financial transaction-related data collected by a company. Key features of such software covered in 99L's patent applications include comparison of supply-side, demand-side and inventory-related data to identify discrepancies, recognition of duplicate transaction-/invoice-related data followed by its removal and automatic generation of financial statement reports. The key patent applications that cover such software are listed as follows:

- CN106970941 B *A sales data comparison method and system*, priority date 16 February 2017, invented by Tie-qiao Lei.
- CN107391472 A *A financial clearing method*, priority date 14 July 2017, invented by Fu-zhuan Zheng.
- CN107862567 A *An order checking method*, priority date 18 October 2017, invented by Fu-zhuan Zheng.
- CN107885788 A *A service data verification method*, priority date 18 October 2017, invented by Yi-tian Liu.
- CN108564424 B *A method for reducing error of inquiring transaction information and payment transaction system*, priority date 04 January 2018, invented by Li-wu Chen.
- CN108985888 A *An account checking system and checking method*, priority date 02 July 2018, invented by Bo Wang.
- CN110750692 A *An invoice automatic verification computer processing method and device*, priority date 15 October 2019, invented by Yu-ru Jiang.
- CN111144963 A *An automatic billing method and system*, priority date 29 December 2019, invented by Fu-chuan Zheng and Yu-ru Jiang.
- CN111798299 A *Account settlement method and device of financial statement*, priority date 15 July 2020, invented by Yu-ru Jiang.
- CN112215670 A *Automatic data processing method and device of electronic invoice*, priority date 20 October 2020, invented by Yu-ru Jiang and Ping Cao.
- CN113327143 A *A billing system for solving repeated invoices*, priority date 15 April 2021, invented by Jie Yang.
- CN105046466 A *Inventory data concurrency control system and method*, priority date 29 June 2015, invented by Jian-guo Wang.

Marketing Management Software

These patent applications disclose software and algorithms that can be used to market new products and services to users and help them redeem loyalty points and/or use discount coupons in a more effective manner. Key innovations disclosed in these patent applications include a tool that



identifies discount coupons nearing expiration and replaces them with new ones, vending machines to be placed at retail outlets that allow users to complete purchases using loyalty points and specialised software that assesses the reliability of data obtained from a precision marketing tool. The key patent applications that cover such software are listed as follows:

- CN106161211 B Based on activity management method and system of instant communication software, priority date 27 July 2016, invented by Cheng-lin Yang.
- CN106204043 A A *payment management system and method*, priority date 22 July 2016, invented by Xin-fu Zhou.
- CN109447283 A A method of recycling a consignment system and method of idle digital product, priority date 11 October 2018, invented by Song Wang.
- CN109447694 A A *user characteristic analysis method and system thereof*, priority date 11 October 2018, invented by Fu-chuan Zheng.
- CN112767016 A An *integrated marketing platform management system and method*, priority date 11 January 2021, invented by Tie-qiao Lei.
- CN105956877 A A *vending system*, priority date 22 April 2016, invented by Zhen-hua Liu.

Enterprise-level Services and Vendor Management Systems

These patent applications disclose software that enables easy integration of data collected from different verticals of a business, as well as data collected from external vendors. Key features of such software disclosed in the company's patent applications include quick reconciliation of data collected from different vendors into a pre-defined format, definition of proper KPIs to assess the performance of different vendors, simplified selection methods for new vendors and unified storage of all business data on a single Cloud-based platform. The key patent applications that cover such software are listed as follows:

- CN105354236 B *Method and system for generating account checking information*, priority date 09 October 2015, invented by Kui Cao.
- CN105373946 A A *supplier switching method and system*, priority date 09 October 2015, invented by Lin-feng Cheng.
- CN107392745 B A *processing method for fragmented account data*, priority date 14 July 2017, invented by Nian-feng Yang.
- CN110363493 A A *business process management system*, priority date 19 June 2019, invented by Jia Wei, Ping Cao and Hong-lin Zhou.
- CN106980642 A A *service data real-time display system and method*, priority date 13 February 2017, invented by Shu-xin Jiang
- CN106971254 A A *service monitoring system and method*, priority date 13 February 2017, invented by Fu-zhuan Zheng and Shu-xin Jiang.

Appendix II – Major Shareholders

The company has six substantial shareholders based on voting rights:

- Grand Ease Holdings Ltd – owns 23.9% stake and Ms. Zhang (99L's Executive Director) is the founder of this entity.
- Caihui Investments Ltd – 14.3%.
- Ace Ray Ltd – 7.4%.



- Vtion Capital Investment Ltd – 7.0%.
- Nation Pride Investments Ltd – 6.2%.
- Decheng Investments Ltd – 5.8%.

Appendix III – Analysts’ Qualifications

Stuart Roberts has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
- Since 2018, Stuart has led Pitt Street Research’s Resources Sector franchise, spearheading research on both mining and energy companies.

Marc Kennis has been covering the Technology sector as an analyst since 1997.

- Marc obtained an MSc in Economics from Tilburg University, Netherlands, in 1996 and a post graduate degree in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in the Netherlands, including ING and Rabobank, where his main focus has been on the Technology sector, including the Semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equities research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Technology companies.

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