FROST & SULLIVAN

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Quarterly Report with Initial Valuation by Frost & Sullivan

Vonetize Plc: Investment Opportunity in VOD for Emerging Countries and Israel; Agreement with Triple C is Expected to Significantly Increase Vonetize Revenues

Stock Exchange: TASE

Symbol: VNTZ

Sector: High-Tech

Sub-sector: Software and Internet

Stock Target Price: NIS 1.86

As of September, 28 2017
(Source: TASE website):

Closing Price: NIS 0.97

Market Cap: NIS 34.8M

# of Shares: 35.7M

Stock Performance (TTM): -65%

Average Daily Trading Volume: NIS 70K

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Company Overview

Vonetize Plc ("Vonetize"), an Israeli-headquartered company, offers video on demand (VOD) and over-the-top (OTT) content services, and technology platforms as fully-managed services for set-top boxes, smartphones, smart TVs and other Internet-connected devices. The company offers multiscreen end-to-end video content solutions including premium content from Hollywood studios; cloud-based digital video delivery of live and VOD content; content management systems; billing; CRM; and marketing/business intelligence (BI) analysis systems. Headquartered in Israel, the company is also active in Latin America, Africa, and the UK. Vonetize has been listed on the Tel Aviv Stock Exchange (TASE:VNTZ) since July 2016. It was established and incorporated in Cyprus as Pixelate T.V. Ltd. in April 2011, and renamed to its current name in February 2016.

Highlights

Vonetize's H1 2017 report includes the following updates:

- Revenues for H1 2017 amounted to $600K, compared with $390K in H1 2016. **An increase in revenues in H1 2017 compared with H1 2016 stems from an increase in Triple C associated revenues and an increase in Brazilian revenues.**
- The company reported that **they have more than 2 million "unique users" in Israel and over 2.2 million unique users in Brazil.**
- **A strategic distribution agreement with Triple C Cloud Computing Ltd.** ("Triple C") includes a minimum commitment to distribute the company's content services for a period of 3 years, in the amount of NIS 17M (Including VAT).
- The company signed a number of significant distribution agreements **in Latin America and Africa** that include a minimum commitment component.
- **Operations in Russia:** Vonetize signed a binding MOU with a leading media corporation in Russia, which is active in areas that include production and rights to films and television programs in the country, to launch a broad global Russian OTT service providing prime exclusive TV series on premium release windows before TV broadcast.

Analysis

- Vonetize operates in a highly competitive global environment with many B2B and B2C players providing content for viewing on smartphones, smart TVs, tablets and other Internet-connected devices. The company aims to become a leader in the VOD and OTT market, especially in emerging countries. It is our understanding that their activities to date in these countries provide an opportunity for investors to access rapidly emerging VOD and OTT markets.
- The distribution agreement with Triple C is expected to yield revenues at least until May 2019, and, in our opinion, will be the basis for its continued development in Israel.
- The company's technology platform is expected to enable it to rapidly develop solutions based on the requirements of local distributors. For the most part, local distributors take associated risks upon themselves and provide Vonetize with contractual obligations to revenues.
- In our opinion, the company believes that a significant increase in revenues will be recorded, due to various agreements and to expenses that are not expected to grow (as a result of past investments made primarily in the technological platform).
- Our initial coverage report dated June 7, 2017 included a comprehensive analysis of the company and its market, but excluded any valuation due to a regulatory requirement. This report includes the company's valuation and stock price target.
- In view of all the considerations, the value of the company is, in our estimation, $18.7M / NIS 66.4M. **We estimate the target price for the company to be in the range of NIS 1.77 - NIS 1.96 and, on average, NIS 1.86. Following are our estimated forecasts:**

Parameters	2016A	2017E	2018E	2019E	2020E
Revenues ($K)	728	3,716	7,271	14,238	17,321
Operating profit (loss) ($K)	-5,738	-3,211	-2,569	-1,092	-920
EPS ($)	-0.21	-0.10	-0.08	-0.04	-0.03

Quarterly Update

Vonetize published its H1 2017 report, in which it noted the following significant events:

- Vonetize reported that they have more than 2 million unique users in Israel alone ("unique users" are defined as those that accessed and/or used the company's services from one device, whether revenue was generated or not). The company did not publish the number of paying users in its reports. However, according to the company, this number is in the range of 3% - 5% based on the countries in which it operates.
- **Strategic distribution agreement with Triple C** - On January 8, 2017, the company announced that it signed a strategic distribution agreement with Triple C, which provides computer and communications services as part of the agreement. Triple C markets Vonetize's SmartVOD™ service to its customers in Israel, as a standalone service or bundled with Triple C's Internet services. As part of the agreement, Triple C undertakes to pay a minimal commitment of NIS 14.5M (before VAT), to distribute Vonetize content services over the three years of the agreement.
- **Vonetize signed an agreement in June 2017 with Renxo S.A.,** a Mobile Value Added Services provider that operates in Latin America (based in Buenos Aires, Argentina). Renxo sells subscription-based content (including streaming music/video and e-books) via mobile payments. Based on the agreement, Renxo will market and distribute Vonetize's SmartVOD services in Latin America.
- **Vonetize signed a binding MOU with a leading media corporation in Russia**, active in areas that include production and rights to movies and television programs in the country. According to the MOU, for an initial period of five years, the sides will cooperate to launch an OTT platform (based on Vonetize's technology) to market and distribute content for Russian-speakers worldwide.
- Vonetize operations in Africa
  - **Distribution of the company's services in South Africa** - On April 27, 2017, the company reported that it is conducting binding negotiations with CrystalWeb in South Africa, whereby CrystalWeb will market and distribute Vonetize's SmartVOD services to its South African subscribers and to other ISPs in the country with which CrystalWeb has partnered for infrastructure and Internet distribution. Vonetize and CrystalWeb have agreed on a minimum amount to be paid to Vonetize in the amount of $960K during the first year, as well as a share of revenue generated.
  - **Signed a binding MOU in Gabon** - On January 30, 2017, the company reported that it signed an MOU with iPi9, which operates in Gabon, Africa. iPi9 sells cellular communications services, data communications, home Internet, cellular phones, home communications routers, as well as other products and services. iPi9 markets Vonetize's SmartVOD services and content services, which are provided by means of periodic subscriptions and/or individual movie rental. A marketing plan for subscribers was established between the parties. iPi9 will pay a minimum commitment of $252K during the first year, reflecting a minimum of 7K monthly subscribers over the year. The term of the contract was set for one year with the possibility of extension.
  - **Additional negotiations in Africa** - The company is conducting several negotiations, but, according to its report, there are no additional binding agreements.

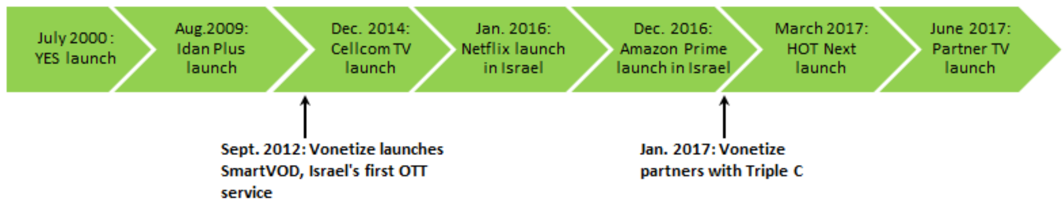
The company also reported significant financial and administrative events, including:

- The company raised convertible bonds during August 2017 totaling a gross amount of NIS 14.4M (NIS 14.0M net), at a conversion price of NIS 1.4 per share;
- On April 21, 2017, the company reported that it had entered into a market-making agreement with Israel IBI Ltd. for stock exchange and investment services;
- Vonetize's accountant has provided a warning disclosure, which is currently an on-going concern.

Competitive Updates

In Israel, competition for Vonetize continues to grow:

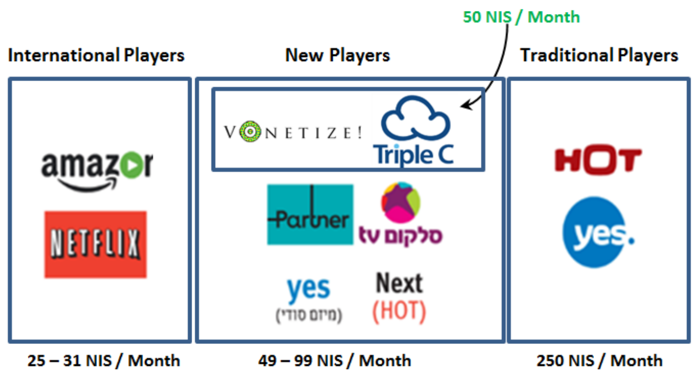
Competition in Israel is Expanding



Source: Based on information from TheMarker – June 18, 2017

Current competition is primarily taking place between large players such as Yes and Hot. With the entry of new players, competition is expected to increase. Following is a general description of the Israeli business environment, current players, and price levels:

Israeli Competitive Landscape



Source: Based on information from TheMarker – June 18, 2017

Industry Updates

Africa:

Vonetize has content rights in 33 countries in sub-Saharan Africa. Their distribution strategy is to pre-install and bundle their content services with mobile network operators offering 4G/3G/fiber data. A significant driver that supports increasing use of VOD and OTT services in emerging markets includes improved delivery of video as 4G services are launched. The number of 4G mobile subscribers in Africa is forecasted to reach 296 million by 2022, and it is expected that 4G subscribers in Sub-Saharan Africa (excluding South Africa) will total 58% of all 4G subscribers in Africa in 2022.[1]

Latin America:

Premium Hollywood content has been licensed for use by Vonetize in 25 Latin American countries, with a focus on new movie releases at their earliest availability. Vonetize launched its service in Brazil in December 2015, and in

[1] Sa Eva Nébié. "4G subscribers in Africa to reach 296 million by 2022." Dataxis, June 2017, http://dataxis.net/wp-content/uploads/2017/06/4G-subscribers-in-Africa-to-reach-296-million-by-2022.pdf.

Mexico during Q2 2017. According to Vonetize's management, business operations are expected to launch across Latin America by the end of 2017. According to recent research the OTT and SVOD markets are growing, and the "perceived preference for free services and the ever-present threat of piracy in Latin America may be somewhat exaggerated." The research, based on the analysis of 19 Latin American countries (including Brazil and Mexico), calculated that revenues from OTT TV episodes and films are expected to reach $4.6 billion in 2022, up from $1.87 billion in 2016.[2]

Valuation

On June 7, 2017, we published an initiation analysis report in which we reviewed the company at length without a target price, in accordance with regulation.

Vonetize is engaged in Video On Demand (VOD) and, more recently, over-the-top (OTT) services, for the television and mobile markets. The company has developed a technology platform that enables Internet streaming, billing and monetization on any connected device, and includes video content that is authorized for distribution in 59 countries. The company's extensive video content library includes Hollywood films, television series, niche categories, and local content.

Vonetize's flagship product, SmartVOD, is an end-to-end solution that includes client applications; content management systems; user management; CDN infrastructure (3D support, 4K); digital rights management (DRM); and billing and customer service. In May 2017, the company announced a new product called "Smart". This service is based on their SmartVOD solution, in addition to live broadcast and cloud upload/recording capabilities, and a set-top box offering. The result is an "all-in-one" TV model based on IP, where users can access video content on multiple platforms, including: the Internet, set-top boxes, mobile devices, web browsers, and on smart TVs with Vista applications.

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Vonetize sells it offerings via B2B and B2C business models, with a clear preference for the former as it partners with Communications Service Providers (CSPs) and consumer electronics manufacturers. Vonetize partners with these players to pre-install and bundle its service to end-users as a mobile application or a complete solution including smart TV, set-top box and other Internet-connected devices. The company's B2C model entails selling video content directly to mobile and smart TV subscribers via an application that is downloaded through open platforms and application stores such as Google Play and Apple AppStore.

Vonetize aims to become a market leader in the provision of VOD and OTT, primarily in emerging countries, with a current focus on Africa and Latin America. In addition, it is focused on Israel, which provides a large base of subscribers as well as a beta-site (a sample group of end-users tries out the product before its commercial release) for its new offerings. The company's end-user base comprises approximately eight million unique users worldwide. Frost & Sullivan forecasts that Internet will continue to be the largest and fastest growing segment for VOD subscribers and titles throughout 2014 - 2020. Moreover, the global VOD market is expected to comprise approximately 900 million subscribers by 2020.[3]

[2] O'Halloran, Joseph. "Free services fail to halt march of OTT and SVOD in Latin America." **Rapid TV News, August 2017,** www.rapidtvnews.com/2017082148487/free-services-fail-to-halt-march-of-ott-and-svod-in-latin-american.html#axzz4qNhxSS5d

[3] Frost & Sullivan. *Global Video On-demand Technology Trends, Forecast to 2020*. March 2016.

We believe that the company has a potential for long-term growth. However, there are inherent risks that characterize a young and small company operating in a rapidly growing but highly competitive market comprising a large number of B2B and B2C players.

Vonetize's strategy is to position itself first and foremost as a B2B player. Accordingly, CSPs and consumer electronics manufacturers pay the marketing expenses, while Vonetize is responsible for delivering the product, content, management, and operational know-how. To realize their strategy, the company is intent on:

- Focusing on faster time-to-market in emerging markets with VOD/OTT offerings;
- Securing licenses for new content (especially new movies from major studios) within a relatively short time of their being distributed to theaters, and before they are authorized for distribution by competitors;
- Maintaining technological and business flexibility, by enabling video delivery via a wide range of devices, and supporting diverse monetization and payment models;
- Developing, partnering, and acquiring new technologies.

Geographically, Vonetize is currently focused on Israel, and emerging markets in Africa and Latin America since they see a large and growing need there for digital content services, as a means to increase data consumption and consumer take-up of broadband services and infrastructure. In future, they intend to expand to additional emerging markets in East Europe, CIS, and APAC.

While Vonetize is currently distributing mainstream content, the company is contemplating diversification into content such as music, original productions, and games.

Financial Analysis

The company's revenues in H1 2017 amounted to approximately $600K, compared with $390K in H1 2016, and approximately $728K during all of 2016. The increase in revenues during H1 2017 compared with H1 2016 is due to the increase in Israeli revenues following the Triple C transaction and the increase in Brazilian revenues.

The company noted that in the near future, it will commence reporting under IFRS 15. The main ramification of this is that revenue will be recognized close to the signing of an agreement with a content distributor.

The company's cost of sales consists mainly of content acquisition from the major studios (such as Disney and Time Warner) under distribution agreements; and $500-600K annually for programmers' wages and costs associated with sub-contractors. During H1 2017, the company's cost of sales totaled $2.1M, compared with $1M in the corresponding period in 2016. This increase is due to content agreements for Triple C as well as an obligation to purchase content in accordance with the contract; this affects the cost of sales without having a direct impact on company sales. In other words, the increase in cost of sales constitutes a positive sign of growth for Vonetize's sales.

The company's operating expenses comprise R&D expenses, mainly in connection with the company's technological platform, and consist of developers' wages (primarily for the support and maintenance of new end devices). These expenses amounted to $572K during H1 2017, similar to the corresponding period in 2016. General and administrative expenses during H1 2017 amounted to approximately $1.3M, equivalent to the corresponding period in 2016.

Vonetize ended H1 2017 with an operating loss of $3.4M compared with $2.6M in the corresponding period in 2016. The company also has a cash flow loss from operating activities of $2.3M in H1 2017, as a result of content agreements and entry into new markets.

As of June 30, 2017, the company has approximately $120K in cash. However, it also has bond liabilities in the amount of approximately $3.9M, and an additional $1M of shareholders' loans, with a capital deficiency of approximately $3.6M.

Forecast of company revenues

The global VOD market is forecasted to serve approximately 900 million subscribers by 2020, while VOD revenues for 2017 are expected to total $632 million and grow at an annual rate of 15.4%. The company's flagship product, SmartVOD, is an end-to-end solution that includes front-end client applications, a content management system, user management, CDN smart routing infrastructure, DRM, billing, and customer BI analysis tools. It includes premium video content licensed for distribution in 59 countries.

Vonetize aims to become a market leader in the provision of VOD and IPTV, primarily in emerging countries, with a current focus on Africa, Latin America, Russia, and Israel. The company usually contracts with local content providers and offers them its technology platform, with video content from some of the world's largest studios. In return, Vonetize enters into a revenue share model, in addition to minimal commitments by the purchaser (e.g., a local content provider). For example, in Africa and Latin America, agreements usually include a minimum commitment and the following revenue shares for Vonetize: 50% in Africa, and 70% in Latin America. In Israel, Vonetize retains 60% of each Triple C subscription and 85% per movie rental. In Russia due to the outline of the existing agreement, Vonetize receives Net revenues.

In Israel, the company's revenues are expected to be generated primarily from the company's agreement with Triple C until May 2019, with the possibility of an extension. As part of the agreement, Triple C undertakes to pay Vonetize for a minimum number of subscribers (10,000 in the first year, and 20,000 annually for the duration of the agreement) at a price (including VAT) of NIS 30 (out of NIS 49.90 that an end-user pays). In addition, the company will be entitled to an additional fee for the rental of films resulting from its services (NIS 19.90 per movie, including VAT, of which the company is entitled to an 85% share). The company reported expected revenues (up to the end of the agreement with Triple C) of NIS 17M including VAT.

In Vonetize's estimation, which we accept, approximately 40% of registered subscribers purchase movies. According to the company, this is based on its experience globally. For example, if the total monthly number of subscribers stands at 20,000, then 8,000 subscribers will rent at least one movie per month. We estimate that by 2022, there will be at most 75,000 subscribers per month, approximately half of those subscribing to Cellcom TV's competing service.

In addition, the company generates limited revenues from the sale of content via its SmartVOD platform that is installed on Samsung TVs. The company estimates that these revenues will decrease significantly in the coming years.

Following is the forecast for Vonetize's Israeli revenues for 2017-2022:

It should be emphasized that until May 2019, the company's revenues in Israel from subscribers is equivalent to the minimum amount guaranteed under the agreement with Triple C, and is not a forecast.

	2017E	2018E	2019E	2020E	2021E	2022E
Subscriptions						
# of SmartVOD Users	2,000	1,000	1,000	1,000	1,000	1,000
# of Triple C Users	4,000	20,000	45,000	55,000	65,000	75,000
Minimum # of Triple C Users (Commitment # of users/Month)	10,000	20,000	20,000	20,000	20,000	20,000
Net Income per Triple C subscriber (NIS)	25.6	25.6	25.6	25.6	25.6	25.6
Revenues from Subscriptions (NIS)	3,076,923	6,666,667	14,358,974	17,435,897	20,512,821	23,589,744
Rentals/Purchases						
Total # of Transactions	2,400	8,400	18,400	22,400	26,400	30,400
Net Income per Transaction (NIS)	17.01	17.01	17.01	17.01	17.01	17.01
Revenues from Rental/Purchases (NIS)	489,846	1,714,462	3,755,487	4,571,897	5,388,308	6,204,718
Subscriptions & Rentals/Purchases						
Total Revenues (NIS)	3,566,769	8,381,128	18,114,462	22,007,795	25,901,128	29,794,462
Total Revenues ($) ($1 = NIS 3.56)	990,769	2,328,091	5,031,795	6,113,276	7,194,758	8,276,239

In Africa, Russia, and Latin America, Vonetize operates a rental model, based on content distribution agreements with local suppliers. The forecast data are based on market research and on data provided by the company's management. The forecast is based on the size of the population exposed to VOD services and other advanced television services. Furthermore, users that have accessed Vonetize's services at least once are not necessarily paying customers. The conversion rate of users to paying customers is calculated based on data received from the company, which bases it on extensive information accumulated in light of past experience; we have no reason to assume that it is incorrect. The average revenue per user (ARPU) is calculated with the local supplier.

Following are the main data used to construct the forecast[4]:

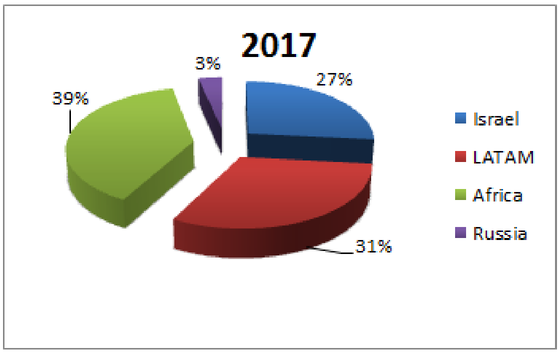
TVOD	Africa	LATAM	Russia and Russian-Speakers Worldwide
Total Market (millions of subscribers)	200	300	260
Registration %	0.3%	23%	30%
Conversion %	5%	5%	3%
ARPU /Month$	4	4	9

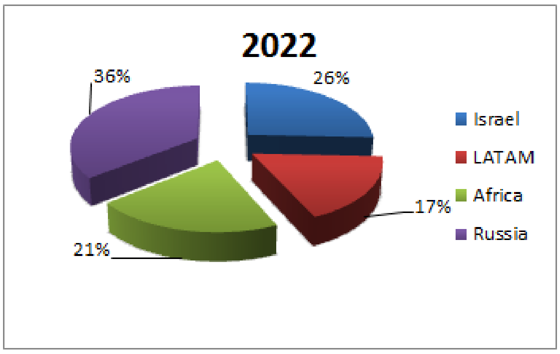
Following is the company's revenue forecast, based on the countries in which it will operate during the forecast years:

	2017E ($K)	2018E ($K)	2019E ($K)	2020E ($K)	2021E ($K)	2022E ($K)
Israel	991	2,328	5,032	6,113	7,195	8,276
LATAM	1,159	1,714	2,409	3,274	4,345	5,662
Africa	1,440	2,016	3,175	3,890	5,251	6,739
Russia	126	1,213	3,622	4,044	8,761	11,524
Total Revenues	**3,716**	**7,271**	**14,238**	**17,321**	**25,551**	**32,201**

In view of the expected change in its deductions based on the various data, we see that while the majority of revenues in 2017 are expected to be generated from Vonetize's operations in Latin America and Africa, major growth engines during the coming years will be based on activities in Israel, and even more so, in Russia.

Following are Vonetize's revenue forecasts for **2017E** and **2022E**:





The company's cost of sales consists mainly of content acquisition from the major studios (such as Disney and Time Warner) under distribution agreements; and $500-600K annually for programmers' wages and costs associated with sub-contractors.

[4] Vonetize data, 2017; Deloitte CIS Research Centre Moscow, 2017

Income distribution in Africa, Russia and Latin America is 50%, 70%, and 70% respectively. In Israel, Vonetize retains 60% of each Triple C subscription and 85% of each movie rental. In Russia, due to the outline of the existing agreement, Vonetize receives Net revenues. We believe that the outline of the existing agreements worldwide will reflect the continued operations of the company.

Research and development expenses, as well as general and administrative expenses, will maintain a similar rate, with a constant average annual increase of 10% annually. It should be noted that Vonetize's technology platform requires improvements and maintenance from time to time, but the company can maintain the existing platform without substantial capital investments requirements.

Following are additional points in the valuation:

- Forecasts were produced for five years, up to 2022.
- In 2016, revenues decreased due to lower activity with Samsung, a major client. Thus, we assume a low number of users for SmartVOD (1,000 users per month) in our forecast.
- As of June 30, 2017, Vonetize has a tax loss of approximately $6M. In our opinion, the company is not expected to pay taxes until 2021, based on its operating forecast and on the basis of its accrued tax losses.
- The company will pay, statutory tax starting in 2022 and beyond. It should be noted that according to the company's management, Vonetize, despite being registered as a foreign company, is liable to pay tax as an Israeli company for all intents and purposes.
- According to existing payment terms in their distribution agreements, the company pays suppliers a few times annually. Vonetize's subscribers pay soon after accessing the video content. Therefore, the company's working capital is positive.
- The discount rate is 19.2% and is based on the WACC model (Appendix C).

Following is a forecast of Vonetize's P&L for the years 2014-2022:

	2014A ($K)	2015A ($K)	2016A ($K)	2017E ($K)	2018E ($K)	2019E ($K)	2020E ($K)	2021E ($K)	2022E ($K)
Revenues	**1,650**	**1,963**	**728**	**3,716**	**7,271**	**14,238**	**17,321**	**25,551**	**32,201**
YoY%		*19.0%*	*-62.9%*	*410.5%*	*95.7%*	*95.8%*	*21.6%*	*47.5%*	*26.0%*
Cost of Revenues	1,247	2,020	2,766	3,280	5,713	10,653	12,931	15,594	18,394
% from Revenues	*75.6%*	*102.9%*	*379.9%*	*88.3%*	*78.6%*	*74.8%*	*74.7%*	*61.0%*	*57.1%*
Gross Profit (Loss)	**403**	**-57**	**-2,038**	**437**	**1,558**	**3,585**	**4,390**	**9,958**	**13,808**
% from Revenues	*24.4%*	*-2.9%*	*-279.9%*	*11.7%*	*21.4%*	*25.2%*	*25.3%*	*39.0%*	*42.9%*
R&D Expenses	1,029	689	1,194	1,144	1,373	1,647	1,977	2,372	2,847
% from Revenues	*62.4%*	*35.1%*	*164.0%*	30.8%	18.9%	11.6%	11.4%	9.3%	8.8%
G&A Expenses	1,500	2,135	2,423	2,504	2,754	3,030	3,333	3,666	4,033
% from Revenues	*90.9%*	*108.8%*	*332.8%*	67.4%	37.9%	21.3%	19.2%	14.3%	12.5%
Other Expenses	-344	49	83	0	0	0	0	0	0
Operating Profit (Loss)	**-1,782**	**-2,930**	**-5,738**	**-3,211**	**-2,569**	**-1,092**	**-920**	**3,919**	**6,928**

The company has non-operating liabilities and assets, including a shareholder loan in the amount of $976K, as well as cash in the amount of $117K. In addition, on August 6, 2017, the company issued convertible bonds (Series A), in which approximately $3.8M net proceeds were received, which will assist the company in realizing its operational plans. Following are details of the company's value:

Parameters	
Enterprise Value (EV) ($K)	**19,587**
Non-operating assets/liabilities	
Cash ($K)	3,903
Bonds ($K)	-3,786
Financial obligations to company owners ($K)	-1,042
Total non-operating assets/liabilities ($K)	**-925**
Equity Value ($K)	**18,662**
Equity Value (NIS K) (1$ = NIS 3.56)	**66,436**

In view of all the considerations, the value of the company is, in our estimation, $18.7M / NIS 66.4M.

Sensitivity Analysis and Target Price

For the WACC sensitivity analysis, we assume a change of +0.5% / -0.5% in relation to the terminal growth and capitalization rates:

Discounted Rate/Terminal Growth	1.5%	2.0%	2.5%
20.2%	1.63	1.68	1.73
19.7%	1.72	**1.77**	1.83
19.2%	1.81	**1.86**	1.92
18.7%	1.90	**1.96**	2.03
18.2%	2.01	2.07	2.14

In light of these considerations, we estimate Vonetize's target price in the range of NIS 1.77 - NIS 1.96, and, on average, NIS 1.86.

Appendix A - Financial Reports

	Audited	Audited	Unaudited
Current Assets:	31.12.2015	31.12.2016	30.06.2017
Cash and cash equivalents	1,308	1,925	117
Other deposits (VOD Libraries)	248	347	1,365
Account receivable	830	504	394
Total current assets	**2,386**	**2,776**	**1,876**
Noncurrent Assets:			
Restricted deposits	36	23	26
Other deposits (VOD Libraries)	619	308	161
Taxes	0	0	0
PPE, net	58	49	60
Total non-current assets	**713**	**380**	**247**
Total Assets	**3,099**	**3,156**	**2,123**
Current Liabilities:			
Cash withdraws	31	14	0
Taxes	342	401	446
Accounts payables (VOD Libraries)	656	1,457	2,766
Other accounts payable	673	965	1,400
Financial obligations to company owners	-	692	976
Total current liabilities	**1,702**	**3,529**	**5,588**
Noncurrent liabilities:			
Financial obligations to company owners	0	516	66
Accounts payables (VOD Libraries)	76	0	0
Warrants exercisable into shares	0	31	32
Total Liabilities	**1,778**	**4,076**	**5,686**
Equity	**1,321**	**-920**	**-3,563**

Profit and Loss ($K)

	Audited ($K)	Audited ($K)	Audited ($K)	Unaudited ($K)	Unaudited ($K)
	31.12.2014	**31.12.2015**	**31.12.2016**	**30.6.16**	**30.6.17**
Revenues	1,650	1,963	728	390	603
Cost of revenues	1,247	2,020	2,766	1,001	2,126
Gross profit (loss)	**403**	**-57**	**-2,038**	**-611**	**-1,523**
Research and development expenses	1,029	689	1,194	579	572
General and administrative expenses	1,500	2,135	2,423	1,389	1,252
Other expenses	-344	49	83	32	-
Operating loss	**-1,782**	**-2,930**	**-5,738**	**-2,611**	**-3,347**
Financial expenses	-82	-100	-241	-124	-221
Other financial expenses (income), net	88	16	5	14	-
Total loss before tax	**-1,776**	**-3,014**	**-5,974**	**-2,721**	**-3,568**
Tax	-235	-146	-39	35	-
Total loss	**-2,011**	**-3,160**	**-6,013**	**-2,756**	**-3,568**

Appendix B - Capitalization Rate

Cost of equity capital (ke) represents the return required by investors. The capitalization rate is calculated using the CAPM (Capital Asset Pricing Model). It is based on a long-term 30-year T-bond with a market risk premium, and based on Professor Aswath Damodaran's (NY University) commonly used sample (www.damodaran.com). As of January 2017, the Israeli market risk is estimated at 6.69%.

A three-year market regression Beta is 0.80, according to a sample of companies representing the cable TV sector (Damodaran.com data). Debt to Equity ratio is 49% of the sample and debt beta is equal to 0, i.e., Beta is 1.22:

βe:	Parameter	Beta
Unlevered beta	βa	0.82
D/E - average for the sample	D/E	0.49
	βd	0.00
βe=βa +D/E* (βa -βd)	**βe**	**1.22**

CAPM model (ke) is estimated as follows:

$ke = rf + \beta(rm-rf) + P$

We therefore estimate Vonetize's CAPM to be 11.2%. The company's financial structure based on the WACC model is as follows:

WACC	Parameter	Data	Source
Long-term (20 years) T-bond	R (f)	3.04%	Rf - Israel
Market risk premium	R (m) - R (f)	6.69%	Based on Damodaran (1/1/17) - Israel
Beta	βe	0.82	Beta sample – Cable TV (Damodaran, 2017)
Cost of Capital	Ke	11.2%	
Debt, rate	Rd	9.62%	company's financial long term average loans
Debt (%)	D/(D+E)	100.0%	Q2 17 financial data
Equity (%)	E/(D+E)	0.0%	Q2 17 financial data
Tax	t	23.0%	
WACC= Rd (1-t) * (D/D+E) +Re (E/D+E)		7.41%	
Size premium		11.79%	10z decimal - Duff & Phelps, 2016
WACC		**19.20%**	

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