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December 13, 2017

Quarterly Analysis Report for Q3

Vonetize Plc: Possible acquisition of Takoomi will provide foothold in the smart video advertising space; price target unchanged

Stock Exchange: TASE

Symbol: VNTZ

Sector: High-Tech

Sub-sector: Software and Internet

Stock Price Target: NIS 1.24

As of December, 11 2017 (Source: TASE website):

Closing Price: NIS 0.90

Market Cap: NIS 31.9M

# of Shares: 35.7M

Stock Performance (TTM): -62%

Average Daily Trading Volume: NIS 97K

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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, technology platforms as fully-managed services for set-top boxes, smart phones, smart TVs and other Internet-connected devices. The company offers multi-screen 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. 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 published its Q3 2017 report, which included the following main points:

- **Revenues for the first nine months of 2017 amounted to $984K**, compared with $539K for the corresponding 2016 period, and with $728K in 2016 as a whole. Growth in revenues stemmed from the distribution of services, and the signing of distribution and service agreements in Israel, Russia and Latin America.
- **Vonetize has more than 2 million "unique users" for its services in Israel alone**.
- **Distribution agreement in Israel with Triple C Cloud Computing Ltd. ("Triple C")**: on November 16, 2017, Vonetize announced that its services to Triple C will be provided according to the current agreement until the end of November 2017. Vonetize will provide Triple C with a technology platform and VOD content by April 30, 2018, the date on which the agreement will be terminated and services will be discontinued to Triple C. Triple C will continue to operate the SMART brand in Israel.
- **MoU for the acquisition of Takoomi's video advertising activity**: the possible transaction will be based on cash payments, and shares of Vonetize (at market price). An acquisition will enable Vonetize to integrate audience-targeted advertising on its content platform.
- **Operations in Russia**: on November 20, 2017, Vonetize announced that it had launched its content platform in a pilot format for a leading media conglomerate in Russia.

Analysis

- Vonetize's distribution agreement with Triple C, which will be terminated in April 2018, is significant not only in terms of revenues for Vonetize, but also in terms of its business and strategic positioning as a content provider in Israel and worldwide. In our report dated November 21, 2017, this issue was taken into account in the economic model.
- On the other hand, the domain in which Vonetize operates is dynamic in its developments. Thus, its business model is expected to enable it to develop very rapidly based on an existing technology platform, which can be customized rapidly according to local suppliers' requirements and service operations. In this context, Vonetize's possible acquisition of Takoomi's activity is, in our understanding, synergetic and complementary to its activity in the OTT field. If this transaction is realized, it will provide significant financial potential for Vonetize both in its business operations and in its renewed positioning as a broad platform that also includes a targeted advertising platform.
- Vonetize forecasts increased revenues based on its various agreements, and on expenses that are not expected to grow due to past investments, primarily in its technology. We estimate that this growth will occur in 2018. In addition, the company's auditors provided a warning disclosure; Vonetize must raise capital before the end of 2018.
- **We maintain our previous valuation at NIS 44.3M / $12.6M. The price target is unchanged, in the range of NIS 1.17 - NIS 1.32, an average of NIS 1.24.**

Parameters	2016A	2017E	2018E	2019E	2020E
Revenues ($K)	728	1,535	4,264	8,304	10,257
Operating profit (loss) ($K)	-5,738	-5,132	-2,889	-684	-208
EPS ($)	-0.21	-0.15	-0.09	-0.03	-0.01

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Quarterly Update

The company published its Q3 2017 report, which included several significant updates:

- **Content platform pilot launched in Russia**: On November 20, 2017 Vonetize announced that it launched its content platform in a pilot format for a leading media corporation in Russia. The two parties are preparing to launch the service commercially immediately after completion of the pilot.
- **Distribution agreement with Renxo S.A to market Vonetize's services in Latin America:** On July 19, 2017, Vonetize reported that it had signed a binding agreement with Renxo S.A, which is engaged in the marketing and distribution of digital content services in Latin America, Europe, India and South Africa. According to the agreement, Renxo S.A will market Vonetize's SmartVOD in Latin America.
- **On October 17, 2017, Vonetize published an announcement regarding its distribution agreement in Israel with Triple C Cloud Computing Ltd. ("Triple C"):**
    - On November 16, 2017, Vonetize announced that its services to Triple C will be provided according to the current agreement until the end of November 2017. Furthermore, Vonetize will provide Triple C with a technology platform and VOD content for the latter's subscribers by April 30, 2018, the date on which the agreement will be terminated. From the date of termination, Vonetize will cease to provide its services to Triple C, but the latter will have exclusive rights to market and sell the "SMART" brand in Israel.
    - Vonetize retains the right to continue offering unlimited content services in Israel.
    - Triple C will pay Vonetize a balance agreed upon for the services and a fixed monthly payment until April 30, 2018, so that Vonetize's revenues for the agreement period will amount to NIS 2M. In parallel, Vonetize will reduce its investment in content licensing for the Triple C project, so that the resulting net cash-flow for Vonetize from the agreement termination will not, according to them, materially affect the company.
    - Moreover, Vonetize's management state that this development with Triple C provides Vonetize with the potential to directly complete within the IP TV domain in Israel
- **Expansion of service distribution agreement for Vonetize's SmartVOD by LG in Brazil and Mexico:** On October 15, 2017, the company announced the signing of an addendum to its SmartVOD service distribution agreement with LG Electronics Inc. Based on the addendum, Vonetize's service will also be distributed by LG in Mexico and Brazil. The distribution will be carried out through pre-installation of SmartVOD in LG smart TVs that are sold in these countries, as well as via "pushing" software updates to existing smart TVs in the market. LG will also promote the service through premium placement in their smart TV main content screen.
- Vonetize announced that it has more than 2 million "unique users" for its services in Israel alone. Unique users are defined by Vonetize as those that have accessed and/or made use of their services (for example, have viewed one video) on their device(s), whether with or without payment.
- **Q3 2017 financial data**
    - Revenues grew to approximately $984K, compared with approximately $540K in the corresponding 2016 period. The increase was primarily due to revenues from operations in Brazil and the Triple C transaction.
    - Cost of sales increased significantly to approximately $3.16M compared with approximately $1M in the corresponding 2016 period, primarily as a result of amortization and provisions made by the company in the amount of $860K against the background of the Triple C transaction and a real increase in content costs (as a result of growth in sales).
    - Research and development, and general and administrative expenses remained at a level similar to that of the corresponding period in 2016. Total operating loss increased by approximately $800K, primarily as a result of the increase in cost of sales.
    - On August 6, 2017, Vonetize issued convertible bonds (Series A) totaling NIS 15.2M, NIS 0.95 per bond. The bonds are convertible into ordinary shares; one bond (with a NIS 1.4 par value) can be exchanged for an ordinary share. Bond interest rate is 6% per annum.
    - Vonetize's cash amounted to approximately $2.35M. The company's capital deficit rose to $5.3M, primarily due to the bond issue.
    - Vonetize's accountant has provided a warning disclosure, which is currently an on-going concern.

Possible acquisition of Israeli Takoomi's advertising activity
Following the publication of Vonetize's Q3 2017 report on December 5th, an MoU was signed with Takoomi, an Israeli company active in the video advertising domain. Takoomi specializes in the field of video, having both technological capabilities and presence among large advertisers. Thus far, Takoomi has focused primarily on Internet, and not on OTT television.

Vonetize seeks to acquire Takoomi's activity that was established in 2012, and generated revenues of NIS 7M in 2016, with a gross profit of 25%. The purpose of the acquisition is to expand Vonetize's content services via an advertising-based model, and to offer these services to additional customers through platforms on which Takoomi advertises.
In other words, an acquisition would provide Vonetize with the opportunity to connect to significant advertisers in the television space. Additionally, Vonetize has agreements in place with major studios, and a technology platform with relatively fast interfacing capabilities. The resulting combination of technologies would enable precise audience segmentation for advertisements, thus establishing an advertising-based communication model rather than a subscription model.

The acquisition transaction is expected to total approximately $1M over two years, based on cash payments throughout the period as well as grants based on success. In addition, Takoomi will receive Vonetize shares, which constitute a significant part of the deal (approximately 1.5M shares, which are equivalent to the average market price of approximately $300K).

Analysis
The company lost Triple C, a significant Israeli customer. We remind that the company also lost another significant customer a year ago (Samsung). As Vonetize is a small firm that is active in a highly competitive market, it may suffer great volatility in its business cycle. However, Vonetize is seeing increased revenues in Brazil. In addition, a pilot project in Russia, if successful, is expected to lead to a significant increase in revenues.

In Israel, the company is expected to contract with Takoomi, which will enable it to expand its technology platform services, positioning Vonetize as a content provider with an attractive business model for advertisers as well. However, this transaction has not been finalized, and therefore we are not yet including it in our economic model.

Vonetize's revenues in Russia and Africa are forecasted to be lower than expected during 2017 in view of Q3 2017 results, but may increase during 2018.

In light of this, we maintain our previous valuation at NIS 44.3M / $12.6M. The target price for the company's share is in the range of NIS 1.17 - NIS 1.32, an average of NIS 1.24.

Below is the stock overview YTD (Source: TASE website):

Appendix - Financial Reports

Balance Sheet, in 000, $

	Audited	Audited	Unaudited
Current Assets:	**31.12.2015**	**31.12.2016**	**30.09.2017**
Cash and cash equivalents	1,308	1,925	2,353
Other deposits (VOD Libraries)	248	347	1,245
Account receivable	830	504	456
Total current assets	**2,386**	**2,776**	4,054
Non-Current Assets:			
Restricted deposits	36	23	0
Other deposits (VOD Libraries)	619	308	331
Taxes	-		
PPE, net	58	49	0
Total non-current assets	**713**	**380**	**331**
Total Assets	**3,099**	**3,156**	**4,385**
Current Liabilities:			
Cash withdraw	31	14	0
Taxes	342	401	
Accounts payables (VOD Libraries)	656	1,457	2,365
Other accounts payable	673	965	1,693
Financial obligations to company owners	-	692	631
Total current liabilities	**1,702**	**3,529**	4,689
Non-Current Liabilites:			
Financial obligations to company owners	0	516	3498
Accounts payables (VOD Libraries)	76	0	0
Warrants exercisable into shares	0	31	1501
Total Liabilities	**1,778**	**4,076**	**9,688**
Equity	**1,321**	**-920**	**-5,303**

Profit and Loss, in 000, $

	Audited	Audited	Audited	Unauditied	Unauditied
	31.12.2014	**31.12.2015**	**31.12.2016**	**30.9.16**	**30.9.17**
Revenues	1,650	1,963	728	539	984
Cost of revenues	1,247	2,020	2,766	1,891	3,158
Gross profit (loss)	**403**	**-57**	**-2,038**	**-1,352**	**-2,174**
Research and development expenses	1,029	689	1,194	895	833
General and administrative expenses	1,500	2,135	2,423	1,787	1,852
Other expenses	-344	49	83	62	-
Operating loss	**-1,782**	**-2,930**	**-5,738**	**-4,096**	**-4,859**
Financial expenses	-82	-100	-241	-213	-454
Other financial expenses (income), net	88	16	5	14	19
Total loss before tax	**-1,776**	**-3,014**	**-5,974**	**-4,295**	**-5,294**
Tax	-235	-146	-39	-10	-
Total loss	**-2,011**	**-3,160**	**-6,013**	**-4,285**	**-5,294**

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