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Q1-2018 Update Report

25 June, 2018

VONETIZE

Growth in Revenues from a quarterly perspective; operational delay in Russia; forecasted revenues have decreased from previous estimate; target price reduced to NIS 1.43

Primary Exchange: TASE

Ticker: TLV: VNTZ

Sector: Technology

Industry: Software/Internet

Data as at 25 June, 2018
(Source: TASE)

Closing price: NIS 0.85

Market cap: NIS 34.5M

# of shares: 40.7M

Stock performance (12 mos.): -36%

Daily-trading-vol. (12 mos.): NIS 401K

Stock target price: NIS 1.43

Frost & Sullivan Research & Consulting Ltd.
A: Abba Even 1, Herzliya Pituach
T: +972 (0) 9 950 2888
E: equity.research@frost.com
W: www.frost.com/equityresearch

Kobi Hazan - Lead Analyst
Credit to Experts: Dr. Tiran Rothman; Daniel Grunstein, Nadav Ofir

Company Overview

Vonetize PLC 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, the US and Europe. 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 rebranded in February 2016.

Highlights & Analysis

Vonetize released its Q1-2018 report on May 31 detailing the following:

On January 16, 2018, the company signed a distribution agreement with Fuxxum GmbH for the development of Fuxxum's television platform.

An agreement was signed with Roku Ltd. (NASDAQ:ROKU), Febuary 3, 2018, for the integration of Vonetize's services into set-top boxes and televisions imbedded with Roku's technology.

On March 16, 2018, the company announced that the conditions required to complete the acquisition of the video advertising activity of Japanese company Takumi, had not been achieved and therefore the transaction was not completed.

Launch of the company's operations in Russia has been delayed due to operational delay. The company estimates that joint operationswith a local partner will commence in Russia in Q3-2018.

Desilu Studios Inc. purchased control of Vonetize at a high premium on the share price prior to announcement. For further information see analysis in our Annual Report of 5 May 2018.

- The company updated that the acquirer has begun the process for preparing to dually list its shares abroad

In light of the developments described above and mainly in view of the postponement of activity in Russia and the decrease in activity in Israel, we are reducing the value of the Company to NIS 58.0 million / USD 16.1 million (in our previous estimate, the value was NIS 78.1 million / $ 21.6 million). The target price ranges from NIS 1.35 to NIS 1.52 and an average of NIS 1.43.

- Company revenues for the first quarter of 2018 amounted to approximately $ 437,000 compared to revenues of $ 193,000 in the same period in 2017.
- The company's cash as at March 31, 2018 was approximately $ 979,000, up from $ 503,000 at the end of the corresponding period last year.
- The company's auditors give it a "live business" comment in the financial statements of 2017.

Parameters	2016A	2017A	2018E	2019E	2020E
Revenues ($K)	728	1,344	3,658	6,071	8,625
Operating profit (loss) ($K)	-5,738	-5,699	-2,124	166	1,551
EPS ($)	-0.21	-0.16	-0.05	0.00	0.14

Updates for Q1-2018

Q1-2018 Quarterly Financial Results

Revenues for the first quarter of 2018 were $437,000, an increase of more than double compared to $193,000 in the same period last year. Most of the growth in revenues derives from a real increase in the number of users in Brazil and in Israel, inter alia due to the recently concluded Triple C transaction.

Gross loss for the first quarter of 2018 was $426,000, compared to $945,000 in the same period last year, mainly due to growth in revenues and lower cost of sales due to a reduction in content assets by $162,000 attributed to Israel in respect of the Triple C transaction. The content used in Africa for which the Company has not yet generated economic benefit, in other words, in Q1-2018, the Company generated economic benefit that were expressed in the current quarter (Q2-2018).

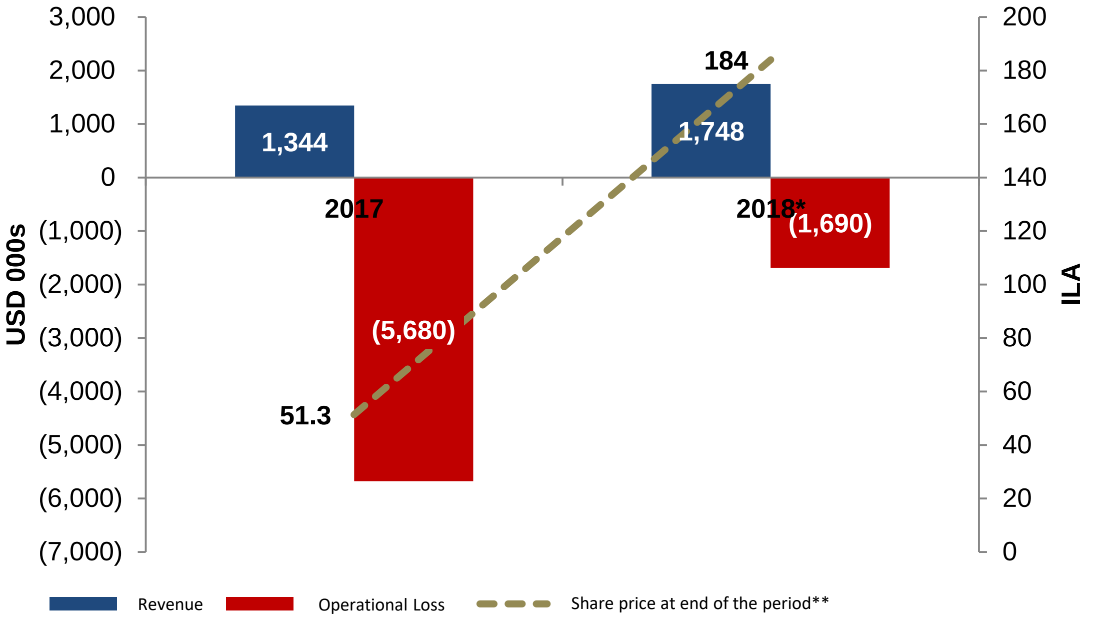
Research and development expenses totaled $252,000 for the first quarter of 2018, similar to the same period last year.

Net sales, marketing, general and administrative expenses totaled $1.1 million for the first quarter of 2018, a significant increase compared to expenses of $503,000 in the same period last year. The increase compared to the corresponding quarter last year is mainly due to a payment of $240,000 to underwriters, marketing expenses in Brazil and the effect of the canceled Takumi transaction.

Operating loss for the quarter amounted to approximately $1.8 million, similar to the loss in the corresponding period last year.

Net loss for the quarter was $5.6 million, a significant increase compared to the total net loss of $ 1.8 million in the corresponding period last year. The significant increase stems from an increase in financing expenses ($3.85 million for the first quarter of 2018, compared with $107,000 for the corresponding period last year), due to the revaluation expenses of the tradable bonds component resulting from a sharp increase in the company's share price.

Cash balance as of March 31, 2018 was approximately $979,000, an increase compared to the $503,000 at the end of the corresponding period last year.



Sources: Vonetize, Tel Aviv Stock Exchange. Analysis by Frost & Sullivan.
* Results for 2018 are quarterly and for the first quarter of the year.
** The last trading days were 31.12.2017 and 29.03.2018 resepctively

Analysis

The company's quarterly revenues show growth from the first quarter of 2017. For example, organic revenues grew by $80,000 compared to the fourth quarter of 2017. Total unique users in the company's services increased from approximately 9.5 million at the end of the fourth quarter of 2017 to 10.5 million at the end of the first quarter of 2018. The increase in unique users resulted in an increase in end-user revenues in the first quarter of 2018 of 126% over the corresponding quarter.

However, the company's revenues remain steady at $440,000 per quarter and are not expected, according to the company's management, to grow in the second quarter of 2018. This is due inter alia to a delay in the company's operations in Russia due to an operational delay on the part of the partner. According to the company's management, the launch of the company's operations in Russia is expected to commence in the third quarter of 2018. In Brazil, revenues are expected in 2018 to be valued at approximately $1.6 million. We are also pricing the company's operations in Africa at $1.2 million for 2018, based on the company's activity to date with a variety of partners. Below we estimate the company's revenues by geography. For further details on the calculation of each geography, see the Analysis Report published on March 20, 2018.

Geography	2018E	2019E	2020E	2021E	2022E	2023E
Israel	0	0	0	0	0	0
LATAM	1,639	2,204	2,865	3,802	4,955	5,538
Africa	1,210	1,693	3,334	5,251	6,739	7,076
Russia	809	2,173	2,426	3,504	3,841	3,841
Total Revenues	**3,658**	**6,071**	**8,625**	**12,558**	**15,536**	**16,455**

We emphasize that the sale of some of the company's shares to the Desilu television studio is not priced in our economic model as receipts are yet to be recognized.

Company Operations

Vonetize intends to be a market leader in premium video content solutions, especially in emerging markets where the company has identified the greatest potential for a supportive technology infrastructure and positive competitive conditions. To realize this strategy, the company focuses on the following activities:

1. **Near-term targeting of emerging markets that require VOD / IPTV services**
   - According to Frost & Sullivan, the Internet will continue to be the largest and fastest growing market segment for VOD subscribers between 2017 and 2020. Moreover, the global VOD market is expected to grow until 2020, when it will reach 900 million subscribers.
   - Geographically, the company focused on Israel and now it is focusing on emerging markets in Africa and Latin America, where increasing consumption of content services has been indetified as a key market driver, along with increasing data consumption and broadband consumer and infrastructure use.
   - In the future, the company intends to expand its services to other emerging markets in Eastern Europe, the CIS, and Asia. While Vonetize currently focuses on distributing video content, it is considering diversifying its activities into additional content such as music, original productions and games.

2. **Ensuring licenses for new content (especially new movies from large studios), before they are licensed for distribution by competitors**
   - In March 2018, Desilu television studios acquired control of Vonetize by committing to purchase a 54% share of the company, at a high premium relative to the share price on the day of the

announcement. The transaction consists of two stages: 10% in cash and 44% through a share swap when Desilu is listed for trading in the US.

- In May 2018 the Company updated that the purchaser began the process of preparing for dual listing of the Company's shares abroad.
- Desilu Studios was founded by Desie Arnaz and Lucille Bell's Desilu Productions. Among its productions are "I Love Lucy", "Star Trek" and the "Untouchables". Desilu's is esitamted at a $2 billion valuation, according to various estimates. The company is now owned by billionaire Charles Hensley, based in Los Angeles. According to the television studio, the technology will be integrated into the post production stage to imbed targeted content into smart devices, as well as to provide a better experience for the audience viewing the content.

3. **Maintain technological and business flexibility, by providing video through a wide range of devices, and supporting diverse models of payment by consumers/partners**
   - Vonetize operates in a highly competitive environment and strives to become a market leader in VOD and Internet Protocol TV (IPTV). The agreement with Roku expanded its reach to lucrative markets in the US and Western Europe and provided an additional distribution channel in Latin America, through various agreements with leading OEMs expanding the presence of Vonetize in the Latin American SmartTV market, particularly in Mexico and Brazil. Frost & Sullivan estimates that Roku has a 20.3% market share in the global smart media market.
   - The company continues to benefit from agreements for the integration of its software in smart television from leading manufacturers including Samsung, LG, NEC, Toshiba and others. The agreements offer fairly stable revenues in addition to distribution agreements such as the agreement with Roku.
     - **Samsung:** SmartVOD application of Vonetize are pre-installed on Smart TVs in Israel, Brazil and Mexico. Vonetize reported the end of a unique joint venture with Warner Brothers and Samsung Studios. According to the agreement, the company has the right to broadcast new studio films, as of January 25, 2018, through Samsung's applications in Brazil and Mexico.
     - **LG:** The Smartphone application is pre-installed on LG Smart TVs in Israel and Brazil.
     - **TCL and others:** On January 16, 2018, it was announced that Vonetize had signed an agreement to distribute its services with Fuxxum, which develops a smart TV platform. According to information provided by Fuxxum, the service provided by Vantage is pre-installed on about 1.5 million televisions in Latin America covering brands such as; TCL, Sanyo, Daewoo, Hitachi, and Toshiba.

4. **Development, partnership and acquisition of new technologies**
   - On January 16, 2018, the Company signed a distribution agreement with Fuxxum GmbH for the development of the Fuxxum television platform.
   - On March 16, 2018, the Company updated that the conditions required to complete the transaction for the acquisition of the video advertising activity of a Japanese company, Takumi, were not met, and therefore the transaction was not completed.

In view of the developments described above and mainly in light of the postponement of activity in Russia and the decrease in activity in Israel, we are reducing the value of the Company to NIS 58.0 million / $16.1 million (in our previous estimate the value was NIS 78.1 million / $21.6 million). The target price ranges from NIS 1.35 to NIS 1.52; an average of NIS 1.43.

Stock Movement (12 months)

For further details, including the market analysis, the company's product and technology, see our [annual report published on 5 May 2018] on the quarterly report. In the [initiation of coverage published by Frost & Sullivan on June 8, 2017] and the [Company's first valuation dated October 2, 2017].

Appendix

Appendix I - Financial Reports

Current Assets:	31.12.2017	31.03.2017	31.03.2018
Cash and cash equivalents	911	503	979
Restricted Cash	29	27	29
Other deposits (VOD Libraries)	1,098	911	833
Account receivable	297	311	593
Deferred Taxes	15	-	19
Related Parties	-	41	-
Total current assets	**2,350**	**1,793**	**2,453**
Non-Current Assets:			
Restricted deposits	157	25	155
long term receivables	72	-	92
Taxes	16	224	-
PPE, net	55	46	46
Total Assets	**2,650**	**2,088**	**2,746**
Current Liabilities:			
Cash withdraw	26	3	34
Liabilites to suppliers of VOD libraries	1,698	1,986	2,105
Accounts payables	1094	977	1374
Tax paid on revenues	449	430	452
Advanced revenues	15	212	15
Financial obligations to company owners	571	830	507
Total current liabilities	**3,853**	**4,438**	**4,487**
Non-Current Liabilites:			
Financial obligations to company owners	-	260	-
Accounts payables (VOD Libraries)	146	-	42
Bonds	2732	-	2763
Convertible Loans	897	-	902
Financial Instruments	718	19	4396
Total Liabilities	**8,346**	**4,717**	**12,590**
Equity	**-5,696**	**-2,629**	**-9,844**

Statement of Profit & Loss ($000s)	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.03.2017	31.03.2018
Revenues	1,650	1,963	728	1,344	193	437
Cost of revenues	1,247	2,020	2,766	3,387	1,138	863
Gross profit (loss)	**403**	**(57)**	**(2,038)**	**(2,043)**	**(945)**	**(426)**
Research and development expenses	1,029	689	1,194	1,156	242	252
General and administrasive expenses	1,500	2,135	2,423	2,500	503	1,078
Other income/expenses, net	(344)	49	83	19	0	0
Operating profit (loss)	**(2,470)**	**(2,832)**	**(5,572)**	**(5,680)**	**(1,690)**	**(1,756)**
Financial expenses (income), net	6	(84)	(236)	23	(107)	(3,848)
Total loss before tax	**(2,464)**	**(2,916)**	**(5,808)**	**(5,657)**	**(1,797)**	**(5,604)**
Net taxes on revenues	(235)	(146)	(39)	15	0	(7)
Total loss	**(2,699)**	**(3,062)**	**(5,847)**	**(5,642)**	**(1,797)**	**(5,611)**
Basic and diluted loss per share	(0.10)	(0.13)	(0.21)	(0.16)	(0.05)	(0.15)

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Kobi Hazan
T: +972 (0) 9 950 2888
E: equity.research@frost.com

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