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H1-2018 Update Report **25 September, 2018**

VONETIZE

After delay, launch of operations in Russia expected by the end of 2018; the company needs additional sources of funding; acquisition by Desilu Studios is still awaiting completion; target price has been reduced to NIS 1.00.

Primary Exchange: TASE

Ticker: TLV: VNTZ

Sector: Technology

Industry: Software/Internet

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

Closing price: NIS 0.53

Market cap: NIS 21.6M

# of shares: 40.7M

Stock performance (12 mos.): -49%

Daily-trading-vol. (12 mos.): NIS 415K

Stock target price: NIS 1.00

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

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

On September 4, the company reported that there had been no further progress in the Desilu deal and that, to the best of its understanding, the non-completion of the transaction was due to internal business-related processes. In addition, it was noted that the Chairman and the controlling shareholder of the acquiring company signed a personal guarantee, which is held by the controlling shareholders of the Company, which the controlling shareholders have not yet exercised.

Desilu Studios Inc., a Hollywood television studio, is expected to acquire control of Vonetize at a high market premium based on the company's market price prior to the announcement. For more information, see our Annual Report dated 5 May, 2018.

- The Company updated that the purchaser began the process of preparing for double registration of the Company's shares abroad.

Vonetize released its Q2-2018 report on August 29 detailing the following:

Agreement signed on February 3, 2018 with Roku Inc. (NASDAQ:ROKU)

- Revenues for the first half of 2018 increased to approximately $745,000 compared with approximately $603,000 for the corresponding period in 2017.
- The Company's cash and cash flows as at June 30, 2018 amounted to approximately $430,000, while the cash flow used for operations amounted to approximately $2M, compared with approximately $2.3M in the corresponding period in 2017. The Company's cash consumption decreased due to an increase in the Company's sales, mainly in Brazil, as well as relatively fixed levels of expenditure.
- The company needs additional sources of funding to support its activities.
- The Company's auditors give it a "live business" comment.

In view of the developments described above and in light of the commencement of activity in Russia, offset by the cessation of activity in Israel, we are reducing our estimation of the company's equity value to NIS 41.0 million / $11.2 million (our previous estimate was approx. NIS 58 million). The updated valuation corresponds to a target price ranging from NIS 0.88 to NIS 1.10; an average of NIS 1.00.

Updates for H1-2018

H1-2018 Financial Results

Revenues for the first half of 2018 amounted to $745,000, compared to $603,000 in the corresponding period in 2017. Most of the growth in revenues is derived from an increase in the number of users in Brazil and in Israel, inter alia due to the recently concluded Triple C transaction.

Gross Loss amounted to $864,000 in H1-2018, compared with $ 1.5 million in the corresponding six-months in 2017. This was mainly due to the reduction of content assets attributed to Israel in respect of the Triple C transaction and the fact that the content assets invested in Africa, from which the company is yet to see financial benefit were reduced in the previous quarter.

Research and Development Expenses remained similar to the corresponding period in 2017, and totalled $440,000, mainly involving developers' wages.

Sales, Marketing, General and Administrative Expenses, net amounted to $1.6 million, compared to $1.3 million in the same period last year, mainly due to an increase in marketing costs in Brazil, marketing costs for designated channels and share-based payments.

Operating Loss for the first half of 2018 amounted to $2.9M, compared a $3.3M loss in the corresponding period in 2017.

Net Loss for the six-monthly period amounted to approximately $3.8M million, similar to the loss of approx. $ 3.6M incurred for the corresponding period in 2017.

Cash and cash flows as of June 30, 2018 amounted to approximately $430,000. The company had a working capital deficit of $2.7M, compared with $3.7M in the corresponding period in 2017. Cash flow used for operations amounted to $2M, compared to $2.3M in the corresponding period last year. The Company's cash consumption decreased due to an increase in the Company's sales, mainly in Brazil, and relatively constant expenditure.

It should be emphasized that in the auditor's report to the shareholders of the Company, they noted "an ongoing concern".

- On September 23, the Company reported that a lawsuit was filed in the Tel Aviv Magistrate's Court by an employee of a company providing content and channels that was a supplier of the Company and demanded compensation totaling NIS 1.48 million. In exchange for granting the license, the plaintiff alleges that he is entitled to a monthly payment determined according to the volume of sales of the broadcasts and/or contents included in the license to the Company's customers, and that there be a minimal monthly payment fixed between the parties.

Analysis

The Company's revenues grew in the first half of 2018 compared to 2017, as stated mainly due to growth in the number of subscribers in Brazil. The total number of unique users in the company's services increased from 10.5 million at the end of the first quarter of 2018 to 11.5 million at the end of the second quarter of 2018. The increase in unique users resulted in an increase of 24% in revenues from end users in the first half of 2018 compared to the corresponding half-year in 2017. From a quarterly perspective, there is a certain decrease, so that total revenues from end users amounted to $308,000 in the second quarter of 2018 compared to approximately $410,000 in the corresponding quarter of 2017.

At the same time, the Company's revenues remain at relatively constant, largely due to the delay in commencement of the Company's operations in Russia due to an operational delay on the part of the partner. According to company management, the launch of the company's operations in Russia is expected to begin by the end of the year. In Brazil, revenues in 2018 are expected at approximately $1.6 million. We price the company's operations in Africa at about $0.6 million in 2018 based on the company's activity so far with a variety of partners. This is a revision of our previous estimation of the value of its African activity at $1.2 million.

We are updating and decreasing our revenue forecast. We will continue to monitor developments in the third quarter and update our forecasts in accordance with developments in the Russian and Brazilian markets.

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

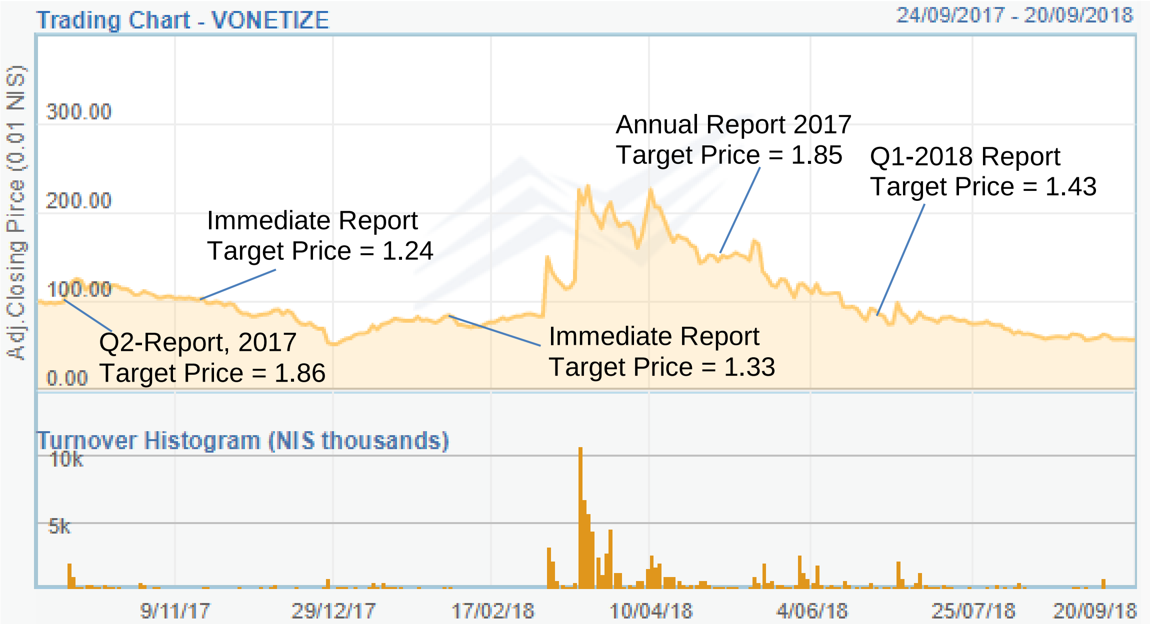
- Vonetize operates in a highly competitive environment and strives to become a market leader in VOD and Internet Protocol TV (IPTV). The agreement with Roku expanded its reach to lucrative markets in the US and Western Europe and provided an additional distribution channel in Latin America, through 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 in light of the commencement of activity in Russia, offset by the cessation of activity in Israel, we are reducing our estimation of the company's equity value to NIS 41.0 million / $11.2 million (our previous estimate was approx. NIS 58 million. The new valuation corresponds to a target price ranging from NIS 0.88 to NIS 1.10; an average of NIS 1.00.

Stock Movement over 12-months



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

Appendix – Financial Reports for H1-2018

Balance Sheet	12/31/2017 $000s	6/30/2018 $000s
Current Assets:	**2017**	**2018**
Cash and cash equivalents	3,514	1,995
Restricted deposits	93	93
Receivables	807	926
Total current assets	**4,414**	**3,014**
Non-Current Assets:		
PPE, net	165	167
Goodwill	523	523
Deferred insurance expenses	61	206
Intangible assets	764	640
Total Assets	**5,927**	**4,550**
Current Liabilities: Accounts payables and other current liabilities	1,571	1,897
Non-Current Liabilities: Warrants and others	1,215	760
Total Liabilities	**2,786**	**2,657**
Equity	**3,141**	**1,893**
Total Liabilities + Equity	**5,927**	**4,550**

Statement of Profit and Loss ($000s)	*12-months ending*	*6-months ending*	*6-months ending*
	31.12.2017	**30.06.2017**	**30.06.2018**
Revenues	1,096	532	755
Cost of revenues	583	283	429
Gross profit (loss)	**513**	**249**	**326**
Research and development expenses	1,608	647	1,034
Selling and marketing expenses	4,051	1,492	3,149
General and administrative expenses	2,150	1,074	927
Total operating expenses	**7,809**	**3,213**	**5,110**
Operating loss	**(7,296)**	**(2,964)**	**(4,784)**
Financial expenses	(975)	1,121	957
Net financial income	2,959	(703)	(85)
Total loss	**(5,312)**	**(2,546)**	**(3,912)**
Loss per share	(0.29)	(0.15)	(0.18)

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

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