

LNU completes third showcase

Transcoding market opportunity validated by Village Roadshow

Using the beta release of its Video Virtualization Engine, Linius Technologies (ASX:LNU) and Village Roadshow (ASX:VRL) have demonstrated technical feasibility of LNU's technology for the transcoding market.

LNU's technology removes the need for transcoding

In this third showcase, LNU has demonstrated that its technology enables video files to be played out in a range of file formats that may be different from the original file format, without the need for the original file to be "translated" first. This so-called transcoding basically translates the original video file into many other file formats that different media players require, which is costly and requires a lot of storage capacity. LNU's Video Virtualization Engine (VVE) allows the original video file to be played out across many different devices in real-time if the video players are compliant with the MPEG-4 standard, which most players are.

Personalized advertising by far the largest market for LNU

Even though the global Transcoding market is only US\$ 1.5BN in size, we believe this showcase demonstration by LNU and Village Roadshow further illustrates the technical potential for LNU's technology, after the earlier validations by DigiSoft and SuitcaseTV for personalized TV advertising and the video production process respectively.

We believe the personalized ads market in particular provides LNU with a very substantial addressable market. The global TV advertising market represents a value of ~US\$ 188BN in 2017. More than 40% of this advertising value can potentially be delivered to consumers through channels that can currently already facilitate personalized advertising. In other words, we believe the current addressable market amounts to approximately US\$ 79BN and is growing double-digit in the next several years. Please see our research initiation report on LNU for more detail.

On track to launch in 1Q 2017, BUY rating reiterated

As a next step, LNU will be looking to sign up reseller partners for its Transcoding solution as well as for its personalized ads, CDN and security/defense solutions. Commercial roll out is slated within the next three months and we expect more news flow regarding additional channel/reseller partners as well as initial commercial deals in the near term. We reiterate our Buy recommendation for LNU. In our DCF model, fair value per LNU share is A\$ 0.28.

LNU.ASX	A\$ M		FY17E	FY18E	FY19E	FY20E
Number of shares (m)	572.4	Revenues	5.6	14.6	25.5	42.6
Number of shares FD (m)	748.4	EBITDA	0.1	4.3	10.0	20.5
Market capitalisation (A\$ m)	26.3	NPAT	-0.2	2.8	6.7	14.1
Market cap fully dil (A\$ m)	34.4	EPS FD	0.00	0.004	0.01	0.02
12 month high/low A\$	0,094 / 0,036	EV/EBITDA	N/M	5.2	1.8	0.3
Average daily volume (k)	683	EV/Sales	4.3	1.5	0.7	0.1

Readers should be aware that TMT Analytics has been engaged by the company covered in this report for ongoing research coverage. Please refer to the final page of this report for the General Advice Warning, disclaimer and full disclosures.

LNU.ASX

Software & IT Services

Australia

Risk: High

LNU provides a patented enterprise grade software technology that virtualizes video files. The process reduces the time required for content preparation and processing (ingestion, transcoding, storage etc) and can populate a catalog of thousands of video titles in minutes as opposed to months without the need for costly, large-scale hardware systems. Furthermore, the technology enables highly valuable personalized advertising in TV broadcasting.

SUBSCRIBE TO OUR RESEARCH AT
TMT-ANALYTICS.COM.AU/RESEARCH

BUY

Share price: A\$ 0.046

20 December 2016

Analyst: Marc Kennis

marc.kennis@tmt-analytics.com.au

+61 (0)4 3483 8134



GENERAL ADVICE WARNING, DISCLAIMER & DISCLOSURES

The information contained herein ("Content") has been prepared and issued by TMT Analytics Pty Ltd ABN 17 611 989 774 ("TMT Analytics"), an Authorised Representative (no: 1242594) of Belmont Securities ABN 47 119 852 890 AFSL 331625. All intellectual property relating to the Content vests with TMT Analytics unless otherwise noted.

DISCLAIMER

The Content is provided on an as is basis, without warranty (express or implied). Whilst the Content has been prepared with all reasonable care from sources we believe to be reliable, no responsibility or liability shall be accepted by TMT Analytics for any errors or omissions or misstatements howsoever caused. Any opinions, forecasts or recommendations reflect our judgment and assumptions at the date of publication and may change without notice. TMT Analytics will not accept any responsibility for updating any advice, views, opinions or recommendations contained in this document.

No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by TMT Analytics, and under no circumstances will any of TMT Analytics, its officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the Content.

GENERAL ADVICE WARNING

The Content has been prepared for general information purposes only and is not (and cannot be construed or relied upon as) personal advice nor as an offer to buy/sell/subscribe to any of the financial products mentioned herein. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content.

Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of market and economic factors, and you should always obtain professional advice to ensure trading or investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document.

DISCLOSURES

TMT Analytics has been commissioned to prepare the Content. From time to time, TMT Analytics' representatives or associates may hold interests, transact or hold directorships in, or perform paid services for, companies mentioned herein. TMT Analytics and its associates, officers, directors and employees, may, from time to time hold securities in the companies referred to herein and may trade in those securities as principal, and in a manner which may be contrary to recommendations mentioned in this document.

TMT Analytics may receive fees from a company referred to in this document, for research services and other financial services or advice we may provide to that company. The analyst has received assistance from the company in preparing this document. The company has provided the analyst with communication with senior management and information on the company and industry. As part of due diligence, the analyst has independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in the report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing this report and making the recommendation. Where TMT Analytics has been commissioned to prepare Content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid will either directly or indirectly impact the Content provided.

RECOMMENDATIONS

TMT Analytics' issues a BUY recommendation in case of an expected total shareholder return (TSR, share price appreciation plus dividend yield) in excess of 25% within the next twelve months, an ACCUMULATE recommendation in case of an expected TSR between 5% and 25%, a HOLD recommendation in case of an expected TSR between -5% and +5% within the next twelve months and a SELL recommendation in case of an expected total return lower than -5% within the next twelve months.