

Linius Technologies Ltd.

Did someone press Fast Forward?

Just in the past few weeks it seems LNU has switched into high gear. In addition to showcasing its technology at the International Broadcasting Conference (IBC) in Amsterdam last week, LNU recently highlighted a specific use case of its technology, Content AI, which we believe will generate significant interest from both the public and private Security sectors as well as the Search industry, e.g. Google, Microsoft etc.

Furthermore, the company released the beta version of its technology, which is now available for evaluation by potential business partners and customers. And Linius has entered into three additional partnership discussions in the slipstream of IBC. Moreover, and more sector-specific, Netflix has started pushing a new video file format to the movie and video industry, which is ideally suited to work together with LNU's technology. We believe this presents a significant opportunity for LNU to drive adoption of its technology. Finally, as we wrote earlier, the recent A\$0.5M investment by the Kirby family is a major validation for LNU's technology, given the Village Roadshow connection. Overall, it seems someone pressed Fast Forward on the LNU story.

International Broadcasting Conference pivotal for LNU

Being one of the largest global broadcasting conferences globally, LNU's presence at the IBC in Amsterdam last week was an excellent opportunity for the company to demonstrate its video virtualization technology and one of its multiple application areas, i.e. personalized advertising in video broadcasting streams.

LNU released the beta version of its technology and demonstrated personalized advertising together with channel partner DigiSoft. On the back of these demonstrations, LNU has entered into discussions with three new potential partners. In combination with the overall increased industry awareness of the technology, we believe IBC may turn out to have been pivotal in LNU's development, especially if the company can convert one or two of these new potential partners into actual business and / or channel partners.

UK roadshow very well received

Following the IBC, LNU met with a range of different investors in London for the first time, including family offices, HNW's and private client brokers. The feedback post roadshow was very positive and has expanded LNU's potential investor base quite substantially with follow on meetings in Europe being scheduled already. LNU is currently road showing in the US and will be meeting with Australian investors later this month.

LNU.ASX	A\$ M	FY16A	FY17E	FY18E	FY19E	
Number of shares (m)	572.4	Revenues	0.0	5.6	14.6	25.5
Number of shares FD (m)	748.4	EBITDA	-3.4	0.1	4.3	10.0
Market capitalisation (A\$ m)	41.2	NPAT	-5.4	-0.2	2.7	6.6
Market cap fully dil (A\$ m)	53.9	EPS FD	-0.01	0.00	0.004	0.01
12 month high/low A\$	0,094 / 0,055	EV/EBITDA	N/A	N/M	9.7	3.7
Average daily volume (k)	964	EV/Sales	N/M	7.8	2.9	1.4

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\$ 0.072

21 September 2016

Analyst: Marc Kennis
marc.kennis@tmt-analytics.com.au
 +61 (0)4 3483 8134

Content AI opens up very substantial revenue opportunity

LNU recently released several white papers illustrating use cases for the company's technology. While we were aware of several use cases with very high revenue potential, such as personalized advertising, transcoding and CDN, the revenue opportunity that Content AI (Artificial Intelligence) presents seems to be at least as large as CDN and transcoding.

Content AI, or more specifically Video Content AI, overlays LNU's technology with AI technologies that can scan video files for patterns. Today's video files are closed off, i.e. existing AI software cannot access individual scenes and frames within the video because the video is rendered in large blocks. As LNU's technology enables access to event structures within the video, individual video fragments can be indexed/tagged, searched, extracted and repackaged, which enables the overlay with AI technology.

A whole new dimension to video search

A potential application of Video Content AI could be a user search on YouTube. But rather than searching for entire video files, a user could search for specific scenes within YouTube videos. Hence, we believe companies, such as Google, Yahoo and Microsoft, will be very interested in this type of application of Content AI.

Additionally, we believe Video Content AI capabilities will be high on the wish list of the Security and Intelligence communities, both private and government sponsored. On-the-fly pattern recognition within pre-recorded and (near) live video fragments would be a very welcome tool in the intelligence arsenal, in our view. Especially in light of the emergence of apps, such as Facebook Live Video, that have recently been used during terrorist's attacks, but also for general surveillance purposes.

Generally speaking, we believe Video Content AI has the potential to be a very high margin revenue stream, given its unique characteristics and high value applications for potential customers and users. Additionally, we wouldn't be surprised if this specific aspect of LNU's technology created serious strategic interest in the company.

Netflix's IMF push creates very substantial opportunity for LNU

In recent months Netflix has started to develop and freely distribute open source tools that help the industry work with and manage video files in the so-called Interoperable Master Format (IMF). The Society of Motion Picture and Television Engineers developed the IMF as a new standard to exchange master files between studios (e.g. Sony), streaming services (e.g. Netflix) and content delivery players (e.g. iTunes). The IMF actually handles video files similar to LNU, i.e. the video file is "unwrapped" with all the different attributes, such as languages and subtitles, separately available. Essentially, the video file is no longer a video file but a data file.

The IMF was developed seven years ago, but until now the format was sparsely used by the industry. Through the open source tools it has developed, Netflix now aims to drive use of the IMF throughout the sector, especially upstream, as this would substantially reduce the company's transcoding and CDN costs.

In our view, LNU has a great opportunity to tap into this increasing adoption of the IMF by industry players as the company's technology is specifically designed to handle this sort of "dissected" video format, whereby the individual video attributes are provided separately rather than integrated into the video stream.

Starting to gain significant traction, BUY rating reiterated, fair value A\$ 0.28

We reiterate our Buy recommendation for LNU. In our view, developments in the last several weeks have substantially reinforced the investment case. We believe the company should be able to sign additional channel partners in the near to medium term to prepare for the commercial launch early 2017. In our DCF model, fair value per LNU share is A\$ 0.28.

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.
