

Linus Technologies

IBM deal pivotal for LNU's video virtualization technology

Linus Technologies (LNU) announced an agreement in which LNU and IBM will jointly promote and sell LNU's Video Virtualization Engine (VVE). By building LNU's VVE technology into IBM's Bluemix cloud platform, which is comparable to AWS and Microsoft Azure, LNU will be able to target IBM's global client base.

A six-minute interview with CEO Chris Richardson talking about the IBM deal is included in the link below:



Given the depth and breadth of IBM's global reach in LNU's strategic verticals, i.e. Security & Defence, Anti-piracy, Ads Personalization and Video Search, we believe this deal will be pivotal for LNU.

Deal expected to generate revenues in the near term

Given the straightforward integration of LNU's VVE technology into Bluemix, we expect this collaboration to generate revenues for LNU early on. IBM has been in a strategic transition towards a more SaaS-oriented business model for several years now and is pushing hard towards this end. Solutions such as LNU's VVE add immediate revenue opportunities for IBM sales reps and we understand LNU has already been targeting IBM customers in recent weeks and months. Consequently, we expect LNU to be able to announce commercial agreements on the back of this deal already within the next few months.

Technological and commercial acceleration

More generally, by integrating LNU's technology into IBM's existing cloud-based enterprise solutions, such as Watson's cognitive capabilities, forensic watermarking, Digital Rights Management (DRM), video search,

	A\$ M		FY16A	FY17E	FY18E	FY19E
Number of shares (m)	679.2	Revenues	0.0	0.1	5.7	12.6
Number of shares FD (m)	752.2	EBITDA	-3.4	-2.3	2.2	7.8
Market capitalisation (A\$ m)	31.2	NPAT	-5.4	-2.8	1.0	4.9
Market cap fully dil (A\$ m)	34.6	EPS FD	-0.01	-0.004	0.001	0.01
12 month high/low A\$	0,094 / 0,036	EV/EBITDA	N/A	N/M	14.0	3.4
Average daily volume (k)	737	EV/Sales	N/M	217.8	5.3	2.1

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Linus Technologies

ASX:LNU

Software & IT Services

Australia

Risk: High

Linus Technologies Ltd. (LNU) provides a patented enterprise grade software technology that virtualizes video files. It transforms cumbersome, static video files into agile, dynamic files that can be easily manipulated on the fly, in order to deliver an enhanced, custom experience for both broadcasters and end-users. One of the application areas of the technology is the valuable personalized TV advertising market.

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Share price: A\$ 0.046

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block chain applications etc, we expect LNU will be able to provide an overall more comprehensive offering, tailored to specific verticals. The company has recently hired two solutions architects specifically for this purpose.

In addition, LNU will also be able to substantially accelerate its time-to-market in LNU's key verticals given IBM's existing customer base within these key verticals.

For instance, IBM clients in the broadcasting sector may have content available on IBM Bluemix, to which LNU's VVE can now be applied very easily, resulting in straightforward distribution through IBM's Content Delivery Network (CDN).

In another example, we believe IBM's strong position within US government agencies (military, security etc) will substantially expedite LNU's roll out to this segment as many different elements of video analysis for intelligence and military applications (e.g. facial and pattern recognition) would benefit tremendously from integration with LNU's VVE technology.

Additionally, by being able to access IBM's client network, LNU should be able to penetrate additional verticals beyond the four key verticals it has been targeting to date.

Finally, LNU should be able to benefit from the sheer scale of IBM's salesforce as well, which will limit LNU's requirements to build out a large salesforce of its own. Through this agreement, we expect LNU to be able to address opportunities globally.

While implementation and integration of different technology stacks can sometimes be quite time consuming, we understand LNU has already been working together with IBM in the last few weeks and months to achieve this integration as soon as possible. Consequently, we expect LNU to be able to announce initial customer wins on the back of this collaboration with IBM in the near term.

Blueprint for similar deals with other cloud platforms

In our view, the IBM deal can serve as a blueprint for LNU in potential discussions with other cloud platforms, such as Amazon Web Services (AWS) and Microsoft Azure. We believe the IBM deal provides all the validation these players could want in terms of applicability, technology and scope. In other words, we expect LNU's first inclusion into a major cloud platform will not be its last.

LNU will de-risk on the back of the IBM agreement

We believe, the agreement with IBM is another step in the de-risking of the LNU investment case. We expect investors will start to factor in LNU's improving risk profile when customer wins are announced and visibility on revenues increases. On the back of this, we see scope to lower the discount rate in our DCF model over the next several quarters.

Currently, our DCF model suggests a fair value per LNU share of A\$ 0.28. We reiterate our Buy recommendation for LNU.

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