Commercialization into high gear

Addressing four high value markets

Linius Technologies (ASX:LNU) announced it will be expediting the commercial roll out of its Video Virtualization Engine (VVE) into four high value markets, setting up four separate business units, each with its own CEO.

Initially targeting four high value markets

Given the versatility of LNU's technology and the high growth of video consumption globally, the company's addressable markets range very widely, from ads personalization, Content Delivery Networks (CDN) and Transcoding to Video Search, Security & Surveillance and Content Security (anti-piracy).

Consequently, LNU needs to prioritize its commercial activities and will initially be addressing the markets for Video Search, Content Security, Personalized Ads and Security Services. These four markets range in size from an estimated US$ 40BN (Content Security and Security Services) to approximately US$ 80BN for Personalized Ads.

Video Search still relatively small, but growing very fast

Market data for Video Search is scarce, but YouTube alone generates approximately US$ 10BN in annual advertising revenues for Alphabet (Google's parent company), growing in excess of 20% per year according to UBS. This is an illustration of just how fast video consumption is growing, and with that, we expect video search will become a very large market going forward.

LNU's Video Virtualization Engine is perfectly suited to search within indexed videos and compile relevant clips based on users' search terms.

Ads Personalization presents largest opportunity

LNU has been partnering with DigiSoft for more than a year to bring Ads Personalization capabilities to Set Top Boxes (STB's). DigiSoft provides software for STB's distributed by cable operators to their viewers. Given this well-developed partnership with DigiSoft and the sheer size of the addressable market, estimated at approximately US$ 80BN in our initiating research report on LNU, we believe Ads Personalization is currently LNU's largest opportunity.

Anti-piracy at top of media companies' priority list

While Ads Personalization may be LNU' largest market opportunity, we believe anti-piracy is one of LNU's application areas with the highest sense of urgency on the client side, i.e. media and film companies etc. Because

		A$ M	FY17E	FY18E	FY19E	FY20E
Number of shares (m)	679.2	Revenues	5.6	14.6	25.5	42.6
Number of shares FD (m)	752.2	EBITDA	0.1	4.3	10.0	20.5
Market capitalisation (A$ m)	32.6	NPAT	-0.2	2.8	6.7	14.1
Market cap fully dil (A$ m)	36.1	EPS FD	0.00	0.004	0.01	0.02
12 month high/low A$	0,094 / 0,036	EV/EBITDA	N/M	6.7	2.4	0.6
Average daily volume (k)	683	EV/Sales	5.5	2.0	0.9	0.3

Linius Technologies

ASX:LNU

Software & IT Services

Australia

Risk: High

Linius Technologies Ltd. (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.

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BUY

Share price: A$ 0.048

2 February 2017

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LNU's Anti-piracy solution for video assets is relatively straightforward to deploy, involving invisibly tagging video content to track and trace videos as they travel across the internet, Content Security may well present LNU's first commercial agreement, in our view. With an approximate US$ 7BN in annual revenues lost just in box office sales, due to piracy, its easy to see LNU's value proposition to this sector. Similar issues exist with piracy of DVD/Blu-ray video content.

Security and anti-terrorism among highest growth markets

With security and terrorism concerns on the rise in the last ten years, we believe LNU's technology has broad applications in the Security Services space. For instance, coupled with facial recognition and tracking software, LNU's VVE can compile video segments on-the-fly based on predetermined variables, such as individuals' suspicious behavior caught on CCTV camera's in a subway station or airport. Video footage can be dispatched to security services almost instantaneously.

We believe such applications will have broad interest from law enforcement, security services, intelligence agencies etc, which have budgets that only seem to be increasing on the back of terrorism threats. The video surveillance market is expected to grow by more than 16% annually to ~US$ 70BN in five years' time.

LNU to set up four new business units

LNU is currently in the process of hiring four CEO's to run the new business units, each with specific expertise in the various verticals. The business units will be operating from the United States, given that the US, in addition to Europe, is one of LNU's key target markets. Depending on the commercial traction each of the units gets in the next several months and quarters, LNU can opt to further build out each business unit individually.

Appointment of IR firm Taylor Rafferty to expand international investor base

LNU also announced the appointment of Investor Relations firm Taylor Rafferty in the US. One of their key priorities will be to expand LNU's investor base in overseas markets, such as the US and Europe. Given the sheer size of the Media, Broadcasting, Search and Advertising markets in both Europe and the US, we believe LNU's investment proposition will be well-understood by investors in these markets. Hence, we believe this appointment should be very supportive of LNU shares.

Expediting commercial roll out, BUY rating reiterated

In our view, for LNU to build out its corporate structure and global footprint as announced is testament to the traction the company is getting from the various industry verticals. We believe, having the ability to specifically target relevant and high-growth market segments should expedite commercial roll out of the company's technology in each segment. Consequently, we expect the company will be able to announce revenue generating commercial agreements in the near to medium term. As illustrated in LNU's latest 4C, the company's operational cash burn of A$ 655k in the December quarter remains modest. In our DCF model, fair value per LNU share is A$ 0.28. We reiterate our Buy recommendation for LNU.

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