

Linus Technologies

Aiming for 6 revenue-generating deals near term

In September 2017, LNU announced a number of milestones that were largely technical in nature and related to the integration of the company's Video Virtualization Engine (VVE) with multiple platforms to provide its partners, and the market in general, with various Proof of Concepts (POC's) and with Prove of Value (POV).

Examples of these milestones included integration into the IBM Cloud (Bluemix) and Microsoft Azure as well as engagement with content providers, such as Warner Brothers and Village Roadshow (ASX:VRL).

LNU has achieved 7 of those milestones to date with three others imminent. One of the imminent milestones is the POC of VVE in video Search in the Education vertical.

Education vertical opening up through video Search POC

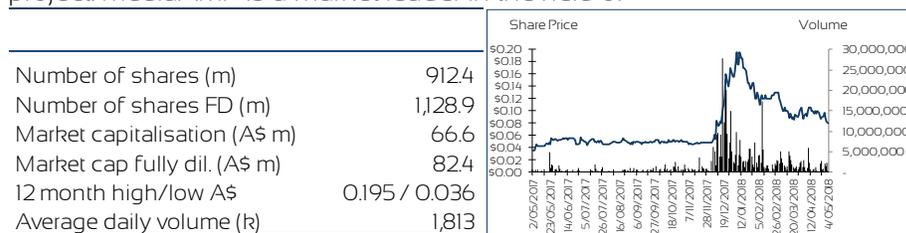
In March, LNU announced an agreement with Oklahoma State University (OSU) in the US to run a POC project aimed at demonstrating the applicability and use cases of the cognitive search capabilities of LNU's technology in an educational setting.

OSU has a library of more than 10,000 hours of OSU-related video pertaining to things such as sports, alumni, research, lectures, fundraising and academia. Together with IBM, LNU will be demonstrating how the company's Video Virtualization Engine enables search within videos, e.g. for students to search past lectures using specific search words. LNU will be leveraging Watson, IBM's Artificial Intelligence (AI) platform, to deliver its solution to OSU.

The OSU project started in 1Q18 and we believe successful completion would present a major opportunity for LNU in the Educational sector. There are nearly 5,000 universities and colleges in the United States alone and close to 24,000 universities worldwide.

We understand LNU has received very substantial inbound interest from educational institutions following the POC announcement with OSU, highlighting the potential market opportunity for LNU in this vertical.

Similarly, the Cognitive Search POC project with MediaAMP, that LNU announced in March, should provide LNU with a strong commercialization partner in the US Education vertical upon successful completion of the project. MediaAMP is a market leader in the field of



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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, indexed and searched on the fly. LNU's current four main target markets are Personalized Advertising, Anti Content Piracy, Security & Defense and Search.

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BUY

Share price: A\$ 0.073

9 May 2018

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Digital Asset Management for the Education sector. The company currently provides an asset management platform for 45 US schools and universities and aims to integrate LNU's VVE under commercial terms into that platform following a successful POC.

New milestones focused on near-term revenue generation

Very recently LNU announced a number of additional milestones that are substantially more focused on converting existing leads into revenue generating deals. Specifically, LNU is now targeting six revenue generating deals within the next three to six months, including in the Education, News and Sports verticals.

Additionally, LNU is targeting near term conversion of initial leads that have come out of the collaboration with IBM.

Given the rate at which the initial set of milestones has been achieved, we believe LNU must be sufficiently confident it can achieve these new milestones near term.

In other words, after two years of technical development, industry collaborations and demonstrating VVE application areas, we believe the start of revenue generation is now imminent.

In addition to multiple near-term revenue generating deals, LNU is also looking to strengthen its distribution capabilities by bringing on a reseller in the Education vertical, i.e. MediaAMP, and an additional, global, partner like IBM.

We believe expanding the company's distribution capabilities should be seen as an ongoing process, which should result in an ongoing stream of channel partners coming on board in the next several years.

The self-service SaaS product to provide ultimate scalability

In January LNU rolled out its Software-as-a-Service (SaaS) version of the VVE to a select number of developers and partners for testing and initial development purposes. A SaaS version of the VVE will enable independent, third-party, developers to build their own applications on top of the VVE platform that is running on AWS (Amazon Web Services).

When the SaaS version is eventually launched commercially, LNU will then be able to charge a fee per use, which could be an API (Application Programming Interface) call by a developer's application, or potentially in a subscription model.

The beauty of this model is that through API's provided by LNU, any developer worldwide can develop applications that use LNU's VVE independently from LNU. Twilio was one of the first companies to successfully commercialize this model and now has more than 1M third-party developers globally who build applications that incorporate Twilio's technology, and hence generate revenue for the company.

Consequently, we believe the SaaS version of the VVE could potentially provide LNU with ultimate scalability of the platform.

Blockchain for video to revolutionize content monetization

In addition to the multiple POC's, partnerships and the SaaS roll out, LNU has been working on the deployment of a Blockchain for video content, i.e. to irrefutably record ownership of a particular video asset. While today's video files, such as an MP4 file of a movie, are way too large to be incorporated on a Blockchain ledger, LNU's virtual video files, that are created by the

VVE, measure just a few hundred Kb in size. They are therefore much better suited to be recorded on a Blockchain and can be combined with smart contracts as well. Smart contracts could contain the conditions under which a video file might be played out, e.g. once a payment transaction has been completed.

Many application areas and opportunity for disintermediation of the value chain

Such a Blockchain for video has many application areas, including anti-piracy, auditing of the value chain and guaranteeing stakeholder royalties. Furthermore, a Blockchain for video could lead to substantial disintermediation of the video content supply chain as content distribution can now be direct-to-consumer.

For instance, Disney's initiative to distribute its sports and movie content directly to consumers in a Netflix-like model (rather than through Netflix or other distributors), could be deployed without the risk of this content being pirated.

Broadly speaking, if and when LNU's Blockchain for video is widely adopted by content producers, such as movie studios, independent filmmakers, TV producers etc, we foresee a dramatic shift in content monetization models.

Not only would we expect to see substantial disintermediation of the movie/video value chain with video assets being distributed to viewers directly by producers, we would also expect to see much more content being created, specifically by smaller and independent producers, who typically struggle to properly monetize their content.

On the cusp of revenue generation: Buy rating reiterated

Judging by the company's recent announcements regarding its near-term goals, we believe LNU is on the cusp of generating its maiden revenue (other than interest). Furthermore, the collaboration with IBM appears to be tracking well. We expect LNU to announce similar partnership deals in the near to medium term, which should help the company commercialize its technology to a wider target market. Furthermore, once the VVE SaaS model is commercially deployed, one of the company's revenue pillars becomes massively scalable if LNU can successfully attract large numbers of developers to its platform.

In conclusion, through LNU's multiple and simultaneous commercialization initiatives and ongoing development, e.g. Blockchain for video, we believe the company is now in a very strong position to start monetizing its technology.

We reiterate our Buy recommendation for LNU. Using a DCF model we calculated a fair value of A\$ 0.23 per share.

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