TMT ANALYTICS

OpenDNA: Momentum is building

Investment summary

OPN's commercial roll out is gaining momentum as high-profiled customers such as Epoch Times, Looker and Expert System sign up to use their Artificial Intelligent engine to better understand their own customers.

We believe the company's current Enterprise Value of A$ 7.7M doesn't come close to reflecting OPN's medium to longer term revenue potential. This provides a clear opportunity for investors looking for a high potential Technology stock with global applicability. Hence, we reiterate our Speculative Buy recommendation for OPN.

Getting strong traction across different verticals

OpenDNA (ASX:OPN) enables businesses to substantially enhance online customer profiles by combining Machine Learning, Neural Networks and Natural Language Processing to build detailed psychographic and behavioral maps on users and customers. Using OpenDNA's Artificial Intelligence System (AIS), businesses can now effectively drive online customer engagement, longer online session times and higher revenue from their customers by providing them with more relevant and engaging content online.

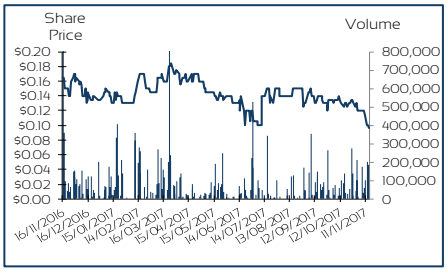
Typical users of OPN's technology include online publishers and media companies, data analytics companies, customer service departments as well as eCommerce and retail companies. Essentially any organisation looking for higher online user engagement and, subsequently, higher revenues from these users, could be an OPN customer. For more background on the company, please refer to our initiating coverage of OPN published on 17 August 2017, available HERE.

Expanding functionality and insights through Synapse

OPN recently launched Synapse, which is an addition to the company's existing platform. Synapse provides customers with business tools and various dashboards (Figure 1) around user interests and psychographics.

As an example, Synapse enables businesses to monitor how their users engage with the information being presented to them. Additionally, OpenDNA provides businesses with the psychographic profiles of their customers by monitoring every interaction within their OpenDNA-powered environment. OpenDNA technology is industry agnostic and can be applied in a variety of ways. For e-commerce, it would be around understanding their customer's buying interests and in turn deliver

Number of shares (m)	105.1
Number of shares FD (m)	159
Market capitalisation (A$	10.1
Free Float (%)	45%
12 month high/low A$	0,20 / 0,09
Average daily volume (k)	72



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Flash note

ASX:OPN

Commercial & Professional Services

Australia

Risk: High

OpenDNA Limited (OPN.ASX) has developed proprietary artificial intelligence and machine learning technology that can be incorporated into any website, mobile application or digital platform. Through superior data analytics, OPN's technology enables businesses to create highly granular user profiles which can be used to predict behavior and personality traits of end-users. This information can then be used by companies to delivery highly targeted, relevant and personalized experiences for its customers which in turn help increase user engagement, user retention and increases the opportunity to drive revenues. The company listed on the ASX on 16 November 2016.

Speculative Buy

Current price: A$ 0.096

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personalized and highly-targeted product placements and offers. Content publishers can better understand their readers' needs and wants and in turn deliver them with highly targeted and personalized content to engage with. This directly reflects an increase in retention and engagement which has a positive impact on revenue for the business. OPN's technology can be used for both optimizing business processes as well as delivering a better customer experience.

FIGURE 1: SYNAPSE DASHBOARD

Source: OpenDNA

Strong technology validation from Looker and Expert System deals

In early August OPN announced it had signed up the Business Intelligence and Data Analytics Platform Looker, based in the US. Looker provides its customers in different industries with data analytics platforms and will be providing customer introductions for OPN. Looker's customers can subsequently choose to include OPN's functionality into their Looker subscription, bringing in revenues for OPN in a revenue sharing agreement with Looker.

We believe the significance of the Looker agreement for OPN is related to the Looker's reputation and investor base. Looker is very well regarded in the crowded space of business intelligence platforms and is backed by very high-profile Venture Capital funds, including Kleiner Perkins Caufield & Byers, CapitalG (Google Venture Capital) and Redpoint as well as Goldman Sachs.

The fact that Looker, with customers such as Sony, The Economist, Lyft, Spotify, Nordstrom, Twilio and TransferWise, would choose OPN as a supplement to its own data analytics platform is very strong validation of OPN's technology, in our view.

Master services agreement with Expert System

The same is true for Expert System (EXSY), a cognitive computing and text analysis company that enables its customers to manage and process large amounts of data and text in real-time. OPN signed a master services agreement with Expert System in early October, which we believe underscores OPN's added value, even to highly specialized companies in the data analytics space. Expert System's customers include Microsoft, Shell, Raytheon and Chevron.

Further expansion into publishers' sector through Epoch Times deal

In September, OPN signed New York-based Epoch Times to trial OPN's AIS to analyse their website and social content and to measure content relevance for its readers. Epoch Times has over 20 million unique monthly visitors who generate over 105 million pageviews per month.

We believe this is a very solid base for OPN to start working from, given the company's revenue sharing model in which the revenue uplift from implementing OpenDNA is shared between OPN and the customer.

Inroads into the Millennial cohort through Gaming and virtual worlds

Through recent agreements with Uproar and GAIA Interactive, OPN has created inroads into the online Gaming sector and virtual online worlds. Both trials focus on improving the user experience within the respective platforms by understanding player's interests.

Online gaming and gaming derivatives, such as communities, forums etc., are very large markets with strong growth potential for OPN. Most users of such platforms are teenagers and millennials, with the latter experiencing increasing purchasing power as they enter the job market or are in the early stages of their careers. As such, we believe this is a very interesting demographic from a commercialization point of view for OPN's customers and prospects. Consequently, OPN should be able to sign additional customers in this sector going forward.

More granularity than Facebook and Google will want to provide to customers

The level of granularity of users' psychographic profiles that OPN can provide to its customers is not only higher than what Facebook and Google can deliver, it is also more than what these two giants in Digital Advertising will be willing to provide to their customers, in our view.

OPN's level of profile granularity gives businesses the tools to fine-tune the delivery of information to its customers making it highly relevant, highly personalised and highly targeted, which then helps improve user experience, user engagement and user retention, which in turn drives revenue opportunities. Even if they could provide OPN's level of profile granularity, we believe both Google and Facebook would want to keep that sort of granularity black-boxed to protect their revenue stream, whereas OPN is putting it into the hands of its customers.

Revenue model aligned with customers' success

Another key strength of OPN is the alignment of its revenue model with customer success. While OPN's revenue model comprises of a fixed component, i.e. a monthly license fee based on the number of users on a customer's online assets, OPN's key revenue driver is based on customers' revenue uplift resulting from the implementation of OpenDNA or the number of data connections made between the customer's systems and OPN's.

Example: a base licensing fee for a publisher's global news website with 20M unique monthly visitors, of which 2M are monthly active users, may amount to A$ 15k or A$ 20k per month.

These 2M active monthly users may visit 2 of the publisher's webpages per visit on average. If OPN can increase the number of page visits to 4 on average by offering more personalized, and thus more engaging content to this publisher's audience, it will have doubled the advertising real estate on this website, and will have roughly doubled time spent on this website.

However, the value of ads the publisher can now place on this expanded online real estate will also be worth more, because the ads can be substantially more targeted. Advertisers are willing to pay much more for ads that are precisely targeted to their target audience compared to ads that are targeted at a more generic audience.

If the publisher can thus increase its advertising revenue from, say, A$ 200k per month to A$ 500k per month, and has agreed a 20% revenue share on this uplift with OPN, OPN can generate A$ 60k per month in revenues from this customer (20% of A$ 300k), in addition to the base licensing fee.

Summarizing, OPN has the ability to generate multiple recurring revenue streams ranging from license fees, revenue shares, data connection charges etc. Having the business model aligned with customer success also helps reduce the barrier to entry with acquiring new customers.

> *In other words, the recurring costs for customers are relatively low, while there is clear upside to revenues these customers wouldn't otherwise have had. We believe this is a very strong selling point for OPN.*

Speculative Buy rating reiterated

OPN's commercial roll out is gaining momentum and their technology is validated by signing up high profile customers in multiple high-growth industry sectors around the world.

We believe the company's current Enterprise Value of A$ 7.7M does not reflect OPN's longer term revenue potential, which provides a clear opportunity for investors looking for a high potential Technology stock with global applicability.

Hence, we reiterate our Speculative Buy recommendation for OPN.

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