

Opera Limited

Ticker: OPRA

MKT CAP: 1,193.2 Million

Price: 10.13

6 Month Price Target: \$13.16

24 Month Price Target: \$30.50

Upside Potential: 29.52%/ 196%



Company Overview:

Opera Limited, through its subsidiaries, operates as a browser provider and an influential player in the field of integrated AI-driven digital content discovery and recommendation platforms worldwide. The company conducts its business mainly through its operating companies, including in particular Opera Software AS. The company served 326.7 million average monthly active users (MAUs) in 2018, of which 251.1 million were smartphone and PC users. In 2018, the company acquired an app-based microfinance service that offers instant credit to approved borrowers in Kenya under 'OKash' and other local brands. In the fourth quarter of 2018, approximately 280,000 microloans were disbursed by the service.

Mobile Browsers: Opera Mini, Opera for Android and Opera Touch

The company has three mobile browser products, such as Opera Mini, Opera for Android and Opera Touch. The company's mobile browser products are fast, and optimized for mobile browsing. All mobile browsers come with native ad blockers, which provide users with the option to further increase browser speed by blocking ads that are slow and intrusive. Opera Mini is a mobile browser that provides a faster browser experience on practically any smartphone or feature phone. Through the application of advanced data compression and saving technologies, Opera Mini has enabled various users worldwide to access the Internet through their mobile devices, providing a browsing experience regardless of their network conditions. Opera Mini is a cloud-based browser that is fast to install and takes up very little space on a user's mobile phone. When browsing with Opera Mini, the data traffic goes through Opera servers, which compress Web pages, including text and images, towards approximately 10% of their original size, reducing the amount of data that needs to be sent through mobile networks that are congested. Opera Touch is designed for mobile phone users to use the browser with one hand while they are on the move. It is also designed to let users to share content from Opera Touch to their other devices in a faster and easier fashion than with other mobile browsers. Opera Touch is a companion app for the company's PC browser.

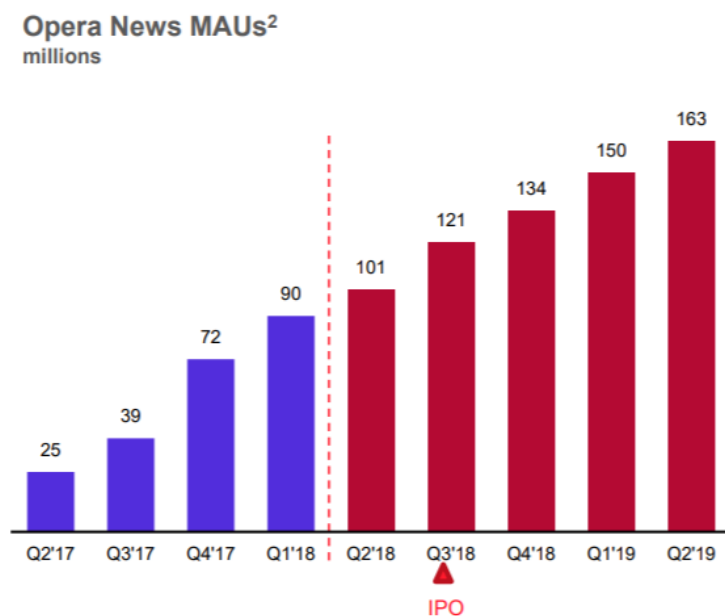
Mobile Browser Users

The company's mobile browser user base reached 256.4 million average MAUs in 2018, of which 180.8 million were smartphone users and 75.6 million were feature phone users. The company's mobile browsers are popular in Africa, South Asia and Southeast Asia.

PC browser: Opera for Computers

Opera for Computers is one of the differentiated PC browsers on the market, catering to the high-end user segment that requires performance and features beyond those offered by the default system browsers on both Windows and macOS. Opera for Computers uses an Opera-tuned version of the Chromium browsing engine carefully optimized for performance metrics, such as speed and laptop battery consumption. In addition, the company provides users with features that are not found in other major Web browsers. In Q2'19, Opera Limited announced the release of Opera GX during

the E3 game show in Los Angeles, the first Internet browser designed specifically for On-line Video game players. The intuitive browser allows users to control the amount of CPU that is being used by the browser to help optimize computer performance. The browser was recently awarded The Red Dot award, an internationally syndicated tech award. Since being released for Beta in June, over 1 Million viewers have downloaded and used the interface.



AI-powered News and Content Recommendations Service: Opera News

The company launched the Opera News service in 2017. Opera News is the company's AI-powered personalized news discovery and aggregation service. The service is both featured primarily as part of its browsers, and also made available as a standalone app. By providing AI-powered news and content recommendations, the company has increased both user activity and the amount of time users spend in its online ecosystem.

Microfinance Apps: OKash

The company's app-based microfinance service offers instant microcredit to approved borrowers under 'OKash' and other local brands. The apps are designed for young consumers with an income and are intended to simplify borrowing for 'last mile' financial inclusion. The company's microfinance service is unique as it uses artificial intelligence technologies to analyze the purpose of the loan, as well as the repayment behavior of borrowers. The service also features an advanced security system that includes facial recognition. The company's microfinance service, which it acquired in 2018, disbursed approximately 280,000 short term microloans in Kenya during the fourth quarter of 2018.

Key Drivers:**Upgraded Full Year Guidance:**

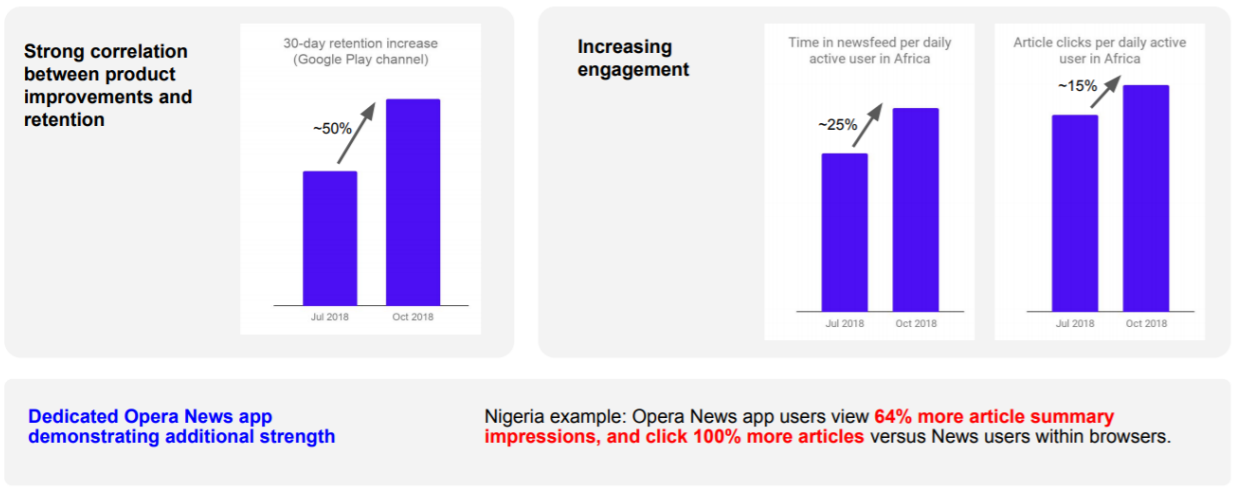
For Q2, YoY revenue had considerable growth to 61.7 million, representing growth of 55% over the year ago quarter, well above the 31% growth in Q1. During the Q2 phone call, management meaningfully raised their full year revenue guidance to a range of \$270 Million to \$290 Million from previous estimates of \$230 Million to \$240 Million. The raise in guidance primarily comes from the strong momentum gained in Q2'19, especially from growth in advertising and search revenue, while impressive growth in the microlending market should continue to scale throughout the rest of 2019. Q3 revenue estimates were raised to a range of \$75-\$85 Million range, which would represent YoY quarterly growth of 75-99%.

New Product Innovation:

Opera knows they have multiple strong products on their hand, and now is the time to capitalize on such opportunities. To that, Opera decided to double marketing investment for 2019, increasing to 14.9 million from 7 million in the prior year. More specifically, Opera has updated brand marketing campaigns in Germany following the EU's antitrust decision regarding Google and Android. The company sees a healthy opportunity to grow market share in such a developed market which will be making a concentrated effort to increase competition in the web browser market. Additionally, the company is continually adding to their product portfolio across both legacy and growth verticals for the company. For Opera Touch, the company has added new capabilities that assist with the user interface, winning the RedDot Award in 2018. The Opera news mobile app has also added new AI powered capabilities that now allow users to interface with music and video recommendations. The company has shown that with strong product innovation leads to greater user retention and engagement which will foster further growth and monetization.

Product investments driving strong KPIs

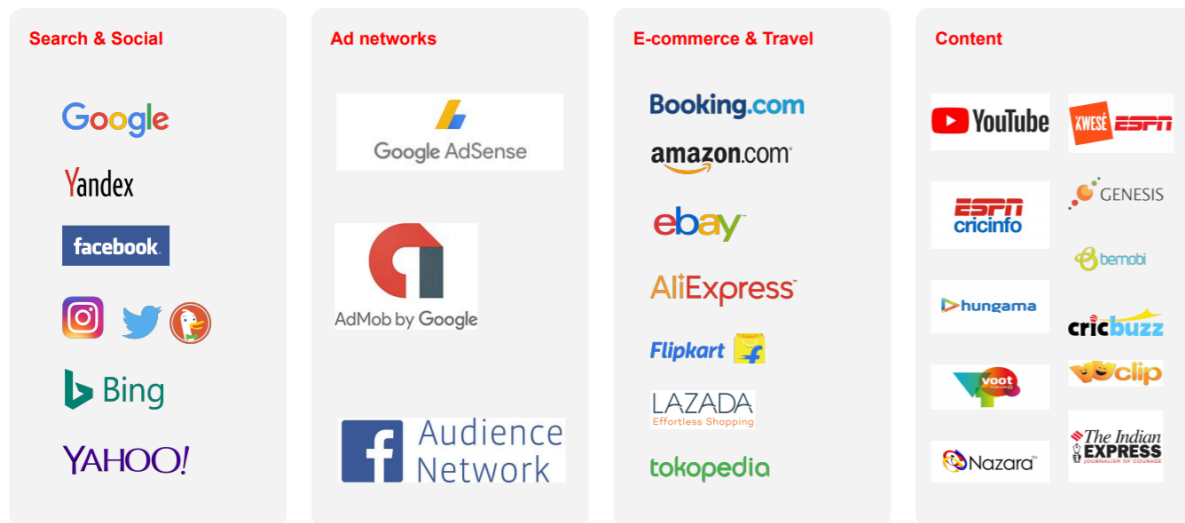
Continued strengthening of retention and engagement



Growing Monetization:

Opera has committed to increasing monetization of the new verticals that they have introduced over the previous two years. In May, Opera Ad's was released as a platform for digital agencies, publishers, and brands to more directly engage with the Opera audience. Through customer targeting, content programming, and eCPM management, Opera can now charge a premium to advertise on their platforms. The ROI for the ad agencies will come from higher efficiency of the marketing campaigns while being able to more precisely tailor to their target market. The firm has also placed an emphasis on growing their partner network through their legacy browser business. This emphasis will also increase the amount of consumer data that Opera can use in turn to bolster their ads business.

Strong partner network

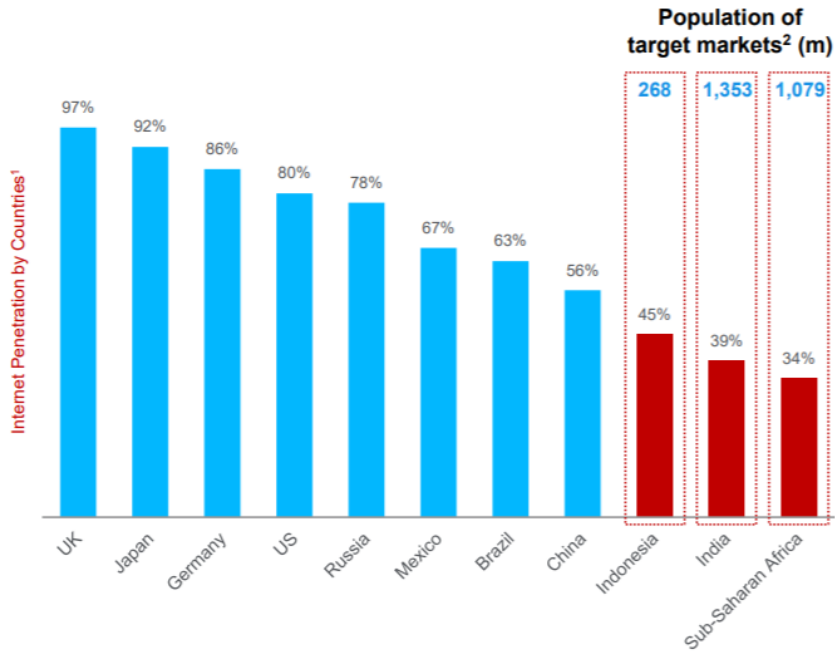


Expanding into new Verticals:

2019 has been a year of growth for Opera as a company, and the best example of this new growth surely is OPay. This new division from Opera looks to revolutionize the microlending market in emerging markets like Sub Saharan Africa and Asia through the recent launch of Okash in late 2018. The Fintech arm of the company will look to address emerging markets where opportunities have been overlooked by large tech operators in the United States. For example, in Nigeria, OPay has grown to become the largest provider of mobile wallets (Apple Pay), motorbike ridesharing (Uber), and food delivery (GrubHub), all within a matter of months. The company in Nigeria alone has already processed \$7 million in daily transactions and facilitated over 100,000 motorbike rides per day. In the following quarter, OPay is expected to scale into new countries, with India and Nigeria being integrated in Q2. OPay in Q2 received \$50 Million in external financing to increase efforts to scale the company, leaving Opera with an ownership stake slightly below 20%. Also announced during the Q2 earnings call was the soft release of OList, a classifieds website. The site was released in Nigeria alone, and in less than a month, has already achieved 50,000 authorized advertisers and 500,000 items have been listed on the site. The priority for OList is currently not to make money but act as a way to increase traffic for Opera Ads, a more profitable venture by adding small and medium sized businesses to the wide range of Opera products. To quantify the increased investments and resulting over performance from these new verticals, just last year these products made up 15% of total revenue, but this year, it will be higher than 50% of revenue.

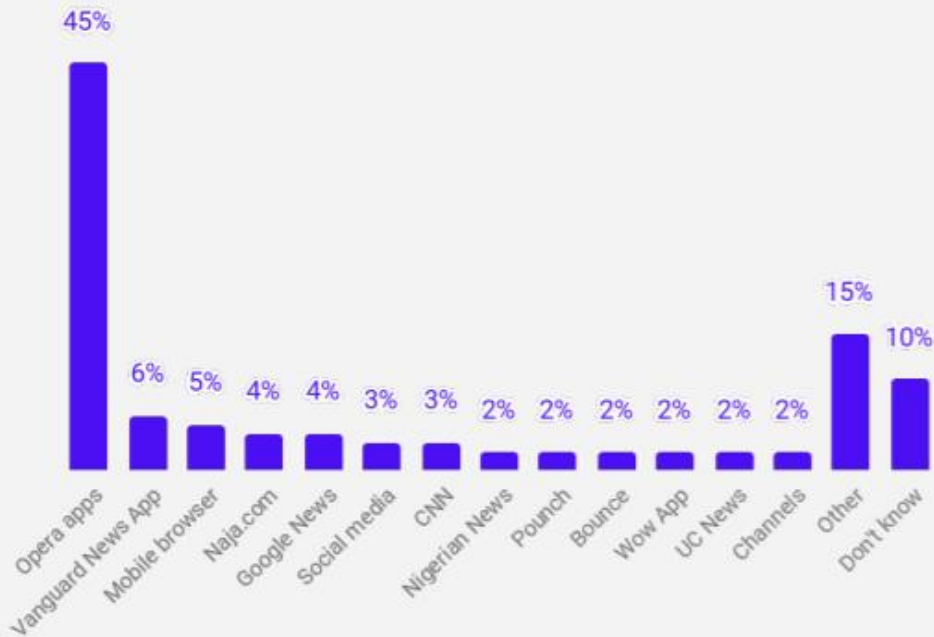
Market Demographics:

It may be shocking, but in developing nations, citizens are more likely to have access to a mobile cellphone than they are to running water and electricity. The technological transformation has been truly incredibly as in 2000 only 4% of people in developing country could access a cellphone, it has risen astronomically to 94% in 2015. This trend is a massive tailwind to Opera as they focus their business on these developing countries as opposed to competitors like Google who mainly focus on developed economies. Many of these cell phones may not be the traditional smartphone many may be accustomed to, but this trend is beginning to change as greater internet penetration continues. The company has identified the fastest scaling countries as India and Indonesia in South East Asia and Sub Saharan countries in Africa such as Nigeria and Kenya. The populations of these nations are some of the highest in the world but still lack in total penetration, which paves a runway for years of continuous growth. The technological trends facing the world are in no threat to break as globalization continues to spread, and as these nations continue to develop, so will the infrastructure needed for Opera to profit. From the success we have seen with OPay in the nations of India, Kenya, and Nigeria, I believe that Opera has proven their ability to scale in these countries, and will continue to build their brand awareness and customer loyalty in these countries. The long term opportunity in Africa is an enormous one for Opera. With a population of 1.2 Billion, penetration is very low but expected to grow at a faster pace than the rest of the developed world. Additionally, with GDP expected to increase faster than developed nations, this creates a great tailwind for Africa as they continue to enter the region.



When you think of news apps, which news apps come to mind?

Unaided brand recognition Nigeria



Risk Factors

As the company diversifies away from their main browser business, there are some operational and financial risks that the company must face as they grow. The largest risk from the OPay program comes from the failure of loan repayment because with the microloans there never any collateral and the lending terms are more favorable to the consumer. Opera announced that they would likely be running OPay below breakeven levels as they continue to scale and win market share in their targeted companies. To monitor this risk it will be important to look at how the company reports Gross Margins and if we seen declining profitability as a result of bad loans not being realized or written off. The company maintains a very strong cash position which will allow it to grow, but also remain strong during the event of a global economic downturn. With a current ratio of 5 and no debt, the company is in no risk of default currently.

Although the GDP of many developing nations in Sub Saharan Africa and East Asia are expected to outpace the developed world, there are still risks if the global economy begins to weaken.

Ownership and Significant Investors

In 2016, a faltering Opera was taken private by a group of Chinese investors led by the current CEO of the firm Zhou Yahui, a Billionaire tech entrepreneur from China. Yahui may be relatively unknown in the United States, but is considered a shrewd businessman in China who has amassed a large fortune from starting his own internet company. The firm now engages in the distribution of value add services for internet companies as well as the distribution of video games in mainland China. According to CFO Frode Jacobsen, Yahui, "came in with the idea of scaling the Opera business and using it as a platform to take the business models that have been proven successful, that's in China and countries surrounding China in Asia, and take them to Africa as well as other regions that were strong." The acquisition of Opera Limited was a strategic one for Yahui, who still remains the chairman of China based Internet services company Kunlun which distributes Chinese software and video games abroad. With over 300 Million MAU, Yahui has been able to grow distribution to many emerging markets. He controls a massive stake in the company, meaning management is entirely aligned with his priorities and gaining value for shareholders. I always feel more confident when a CEO has skin in the game, and this is definitely no exception for Yahui.

The company is run day to day by the COO and CFO of the company, Lin Song and Frode Jacobsen. Song has been with Opera since its inception in 2002 and has managed many key elements of the firm including bringing the Opera platform to Mobile technology. He truly has an intimate understanding of the company and maintains a very strong grasp of the company. Jacobsen has served the company since 2016, originally as Senior Vice President of Strategic Initiatives and now as CFO. He originally was a consultant for McKinsey & Co. serving as an engagement manager for five years.

Opera News is focused on massive, complex & underserved markets

1 Focus on Sub-Saharan Africa



#1 News App in 10 African countries including Nigeria, Kenya, South Africa, Ghana and Tanzania. Ranked top #5 in 32 markets
AppAnnie, November 2018

2 SEA & South Asia



3 Rest of EMEA Markets



Valuation:

Following the announcement of a follow up offering in the public market, the company stock has fallen significantly, approximately 25% in the last month. The stock increased 52% over 1H19 however as the companies growth story still very much remains intact. The company announced on September 16th they would be selling 7,000,000 ADS in a follow on public offering. The decision to offer additional shares was made for “general corporate purposes”, which I believe will mainly be used for further scaling of their product pipeline. The recent success that OPay has seen in just the first 9 months of the year is significant and I believe funds used to scale this project are very much well used. In their latest investor presentation, the company highlighted operating metrics that display the potential for OKash. Since first launching in Kenya in March, the company has since started in India during Q2 and Nigeria in Q3. In Q2 alone, the company had 1.8 million microloans at an average value of \$40 dollars which generated \$11.6 million in revenue, a 130% QoQ.

Since the announcement the company’s stock price plummeted from a high of \$14.98 to approximately \$10.00, where the secondary shares were priced at. The stock has begun to build

a base at this price as selling volumes continue to go down and people stop overreacting on the news; as a result the stock is selling at a P/S multiple of 4X 2019 revenue estimates. I believe that this moment in time represents a fantastic buying opportunity. The bull case that brought the stock price nearly to \$15 a month ago is still intact if not strengthened after the firm's announcement of a follow on offering. As I mentioned, the company significantly raised their guidance in the previous year's earnings call, which leads me to believe that the company should be commanding a far higher growth multiple. The next earnings call will be helpful in getting a direction from management of how the funds will be used. I also believe that this will raise the stock price back in line with historical multiples of approximately 6X revenues. If the company stock price can go up just one multiple to 5x sales, that would imply an equity value of \$13.16, an upside of over 30% in just the short term. In the long term, we provide a 24 month target price of \$30.50 dollars, representing an increase of 196% over the two years. We came to this conclusion by multiplying estimated revenues of \$504,000,000, in line with historical revenue growth, multiplied by a P/S multiple of 7x. We believe that as the company continues to scale their new product offerings in developing nations, the market will recognize the significant growth available and assign a higher multiple than 5x sales.

INCOME STATEMENT

Fiscal year	2017A	2018A	TTM 6/30/2019	2019`P	2020P	2021P
Revenue	129	172	204	277	360	504
Cost of sales	(46)	(54)	(72)	(56)	(74)	(176)
Gross Margin	65%	68%	65%	80%	79%	65%
Gross Profit	83	159	132	221	286	328
Provision for bad debt	0	0	-8	(8)	(8)	(8)
Depreciation & Amort.	(17)	(13)	(14)	(14)	(14)	(14)
Other Operating Expenses	(56)	(57)	(56)	(56)	(56)	(56)
Selling, general & administrative	(3)	(3)	(24)	(24)	(24)	(24)
Operating profit (EBIT)	8	86	30	119	184	226
Interest Expense	0	0	0	0	0	0
Interest and Invest. Income	0	1	5	5	5	5
Net Interest Exp.	0	1	4	5	5	5
Pretax profit	8	88	34	124	189	230
Taxes (enter expense as -)	(1)	(6)	(1)	(6)	(19)	(23)
Net income	6.4	81	33	117	170	207
Basic shares outstanding	95.1	101.3	108.7	117	117	117
Impact of dilutive securities	1.2	3.1	2.8	3	4	5
Diluted shares outstanding	96.3	104.4	111.4	120	121	122
	\$	\$	\$			
Basic EPS	0.07	0.80	0.31	1	1	2
	\$	\$	\$			
Diluted EPS	0.07	0.78	0.30	1	1	2
<u>Growth rates & margins</u>						
Revenue growth	NA	34%	18%	36%	40%	40%
Gross profit as % of sales	65%	92%	65%	65%	65%	65%
Operating Income	6%	50%	15%	43%	51%	45%
Tax rate	18%	7%	3%	5%	10%	10%

ASSETS	2017A	2018A	TTM 6/30/2019
Cash And Equivalents	33.2	177.9	134.2
Short Term Investments	-	1.3	16.9
Total Cash & ST Investments	33.2	179.1	151.0
Accounts Receivable	31.1	37.5	63.2
Other Receivables	5.4	7.1	3.9
Total Receivables	36.4	44.6	67.1
Prepaid Exp.	2.2	14.4	24.0
Other Current Assets	2.5	-	-
Total Current Assets	74.3	238.1	242.2
Gross Property, Plant & Equipment	22.9	26.9	-
Accumulated Depreciation	(9.4)	(14.8)	-
Net Property, Plant & Equipment	13.5	12.2	27.4
Long-term Investments	7.4	37.1	47.0
Goodwill	421.6	421.6	421.6
Other Intangibles	118.6	115.4	113.5
Deferred Tax Assets, LT	1.0	0.9	0.7
Other Long-Term Assets	-	-	0
Total Assets	<u>636.3</u>	<u>825.3</u>	<u>852.3</u>
LIABILITIES			
Accounts Payable	16.5	14.9	32.2
Accrued Exp.	10.7	9.9	-
Curr. Port. of LT Debt	-	2.3	-
Curr. Port. of Cap. Leases	2.1	0.2	7.0
Curr. Income Taxes Payable	3.7	1.9	0.7
Unearned Revenue, Current	1.5	1.9	1.2
Other Current Liabilities	2.4	2.8	7.6
Total Current Liabilities	36.9	34.0	48.7
Long-Term Debt	3.8	2.2	-
Capital Leases	0.3	0.0	10.1

Def. Tax Liability, Non-Curr.	11.8	13.4	13.8
Other Non-Current Liabilities	0.1	0.2	0.2
Total Liabilities	52.8	49.8	72.7
Common Stock	19.0	22.0	0.0
Additional Paid In Capital	557.5	716.7	732.9
Retained Earnings	5.4	36.4	46.5
Treasury Stock	-	-	-
Comprehensive Inc. and Other	1.6	0.3	0.2
Total Common Equity	583.5	775.5	779.6
Total Equity	<u>583.5</u>	<u>775.5</u>	<u>779.6</u>
Total Liabilities And Equity	<u>636.3</u>	<u>825.3</u>	<u>852.3</u>