



One Horizon Group Inc. (Nasdaq: OHGI, Target Price: \$3.85)

One Horizon Group, Inc. (Nasdaq: OHGI) is a mobile technology company focused on bandwidth efficient mobile Voice over Internet Protocol (VoIP) platforms and services. The company's offerings are underpinned by its proprietary SmartPacket technology, which improves bandwidth efficiency by reducing IP overhead and optimizing packet flow, delivery and playback. OHGI's Horizon Platform initially targeted emerging markets including India, Indonesia, and Russia, which are characterized by high population density, high mobile phone penetration and smartphone adoption, and congested mobile networks. In the last year OHGI has been focused on the launch of Aishuo, a retail VoIP service in China. Aishuo offers value-added VoIP services such as low cost calling, voicemail, and virtual SIM solutions. OHGI initially set out to acquire 15mn subscriber downloads within two years of launch (1Q17), but now has more than doubled that figure, having reported 37mn subscriber downloads as of July 19, 2016. We are eager to learn more about the conversion rate of subscriber downloads to active users, and the company's strategy to balance revenue generation with subscriber growth.

Investment Highlights

New "Roam Like Home" offering expands carrier possibilities

We were encouraged to see OHGI launch a compelling new service for emerging market carriers. In April, the company announced an attractive feature for emerging market carriers called "Roam Like Home," which appears to have had some initial success, as evidenced by OHGI announcing operators that have signed up for the service, including Smart Communications, the largest wireless service provider in the Philippines with over 55mn prepaid subscribers, that have already begun deploying the service since June. Roam Like Home offers subscribers the ability to take advantage of low coast roaming when travelling outside of their home market. It also has distinct advantages for carriers in their battle against competition from over-the-top services such as Skype, by enabling carriers to continue to profit from their prepaid subscribers even when they are roaming. According to the announcement by the company, Roam Like Home makes offering roaming service 5x – 17x more cost effective for carriers by using OHGI's patented low data usage SmartPacket™ mobile VoIP smartphone app with the low inter-operator data roaming rates. The new service should create incremental revenue for OHGI's service provider clients, who were previously losing revenues, as high data roaming fees were forcing prepaid subscribers to use WIFI-based OTT services when roaming.

Aishuo surpasses 37mn downloads ahead of expectations

OHGI has been focused on the launch and rollout of Aishuo, its retail VoIP service in China. We have been impressed by the pace at which the company has added downloads, and note that on July 19, 2016, the company announced that Aishuo had surpassed 37mn downloads. The figure is well ahead of our thinking, and also the company's stated goal of reaching 15mn subscriber downloads by 1Q17. With 37mn in July, it now appears that management has more than doubled its initial goal. Having accomplished Phase 1 of its plan, we are now looking for OHGI to provide additional detail about its subscribers, including usage metrics and a clarification between subscriber downloads and active subscribers. We are also eager to learn more about the how management sees the scope and timing of potential monetization plans including sales of the recently launched Aishuo SIM card for holiday makers. Along these lines, OHGI has begun disclosing Aishuo revenues, which grew by 100% sequentially in 1Q16, grown

rapidly albeit from a small base, reaching \$60,000 in the quarter.

Adjusting price target to \$3.85

We are adjusting our price target for OHGI to \$3.85 to reflect slower than expected revenue and bookings growth in the carrier business. It is clear that OHGI management is focused on accelerating subscriber downloads of Aishuo, its consumer VoIP app in China. The company has outperformed our initial thinking in this area and, with 37mn subscriber downloads as of July 19, 2016, has already more than doubled its goal of reaching 15mn subscriber downloads in the first two years of launch. The price target assumes OHGI is able to monetize these customers over time, and we are beginning to shift our focus from new downloads to customer usage metrics and average revenue per subscriber, which remains in the early stages.

Stock Details (7/25/16)

Nasdaq:	OHGI
Sector / Industry	Technology/ Application Software
Price target	\$3.85
Recent share price	\$0.92
Shares o/s (mn)	35.1
Market cap (in \$mn)	32.3
52-week high/low	\$3.73 / 0.61

Source: Thomson Reuters, SeeThruEquity Research

Key Financial (\$mn, unless specified)

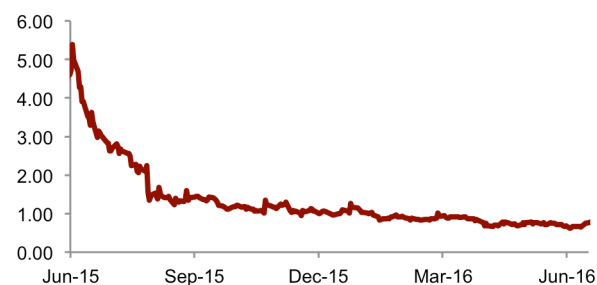
	FY14	FY15E	FY16E
Revenues	5.1	1.5	4.2
EBITDA	(0.2)	(8.1)	(1.7)
EBIT	(2.2)	(10.2)	(3.9)
Net Income	(1.9)	(11.0)	(4.0)
EPS (\$)	-0.06	-0.32	-0.11

Source: SeeThruEquity Research

Key Ratios

	FY14	FY15E	FY16E
Gross margin (%)	56.0	-45.4	20.0
Operating Margin (%)	(43.1)	(667.7)	(93.3)
EBITDA margin (%)	(3.4)	(525.5)	(40.6)
Net margin (%)	(37.3)	(716.3)	(95.7)
P/Revenue (x)	5.3	18.5	6.6
EV/Revenue (x)	5.6	18.9	6.8

Source: SeeThruEquity Research



QUARTERLY FINANCIAL SUMMARY

Figure 1. Income Statement Summary

Figures in \$ unless specified	1Q16	1Q15
Total Revenue	609	745
YoY growth	-18.3%	N/A
Cost of Revenue - Hardware	26	61
As % of Revenue	4.3%	8.2%
Cost of Revenue - Amortization of Intangibles	512	512
As % of Revenue	84.1%	68.7%
Gross Profit	71	172
Gross Profit Margin	11.7%	23.1%
General & Administrative	964	953
YoY growth	1.2%	
Reserch & Development	188	132
YoY growth	42.4%	
Depreciation Expenses	15	20
YoY growth	-25.0%	2.1%
EBITDA	-569	-401
YoY growth		
Total Operating Expenses	1,167	1,105
YoY growth	5.6%	
Operating Income	-1,096	-933
Interest & Other	-173	-5
Taxes	11	
Net Income to One Horizon Group	-1,258	-938
Preferred Div, Min Interest & Other	-25	-20
Net income/(loss) to common shareholders	-1,283	-958
Net Margin	-206.6%	-125.9%
Diluted EPS	-0.04	-0.03
YoY growth	NM	
Weighted Avg Basic & Diluted Shares in Period	35,147	33,281

Source: Company Earnings Release, SeeThruEquity Research

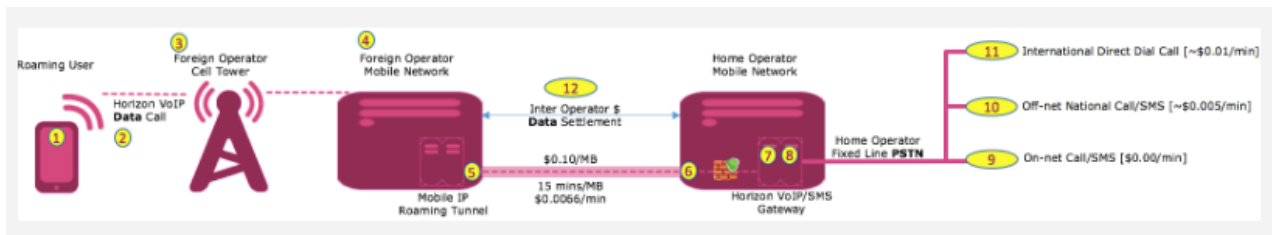
ADDITIONAL NOTES

- OHGI revenues came in at \$609,000 versus \$745,000 in 1Q15. The company's Aishuo segment, its B2C VoIP business in China, grew revenues by 100% sequentially, according to management, reaching \$60,000.
- Aishuo subscriber downloads continue to grow:** It's clear that the focus of management has been on the Aishuo business. As we noted in our October 2015 update, the company has been focused on growing the subscriber base of this business. Revenues in this segment have grown quickly from a small base, rising from \$30,000 in 4Q15 to \$60,000 in 1Q16, while subscriber downloads surpassed 37mn as of July 19, 2016, well ahead of the target set out by management last year.
- New application for Chinese travelers:** Aishuo also announced an expanded service offering that enables subscribers to use Aishuo while traveling outside of China via a mobile SIM card. The strategy takes advantage of the OHGI's bandwidth-intelligent VoIP technology and also positions Aishuo to initiate a new revenue stream as it targets the more than 120mn outbound Chinese visitors per year. Initially Aishuo launched SIM cards for tourists bound for Japan, Taiwan, Hong Kong and Vietnam and management stated that it will continue to add destinations in 2016 and 2017. We like the move as it leverages the company's technology and accelerates the potential to show meaningful revenue at Aishuo.
- Launch of 'Roam Like Home' for emerging market carriers:** OHGI also continues to introduce new solutions for mobile carriers, and in fact recently launched a new service – "Roam Like Home" – which promises help mobile operators compete with OTT competitors while its subscribers are roaming. The company has stated that it already has five mobile operators signed up for this service, including the largest mobile operator in the Philippines.

- Overall 1Q16 revenues of \$0.6mn declined due to a drop in revenues from Business to Business (B2B) revenues, particularly in the Americas region. In its 10-Q, OHGI stated that it has converted many of the contracts in this business to a revenue share model, which could account for a portion of the decline as well, as a shared revenue model would likely have lower initial revenues and a longer tail.
- OHGI had stated publicly as recently as 2H15 that it had a B2B backlog from carrier customers of approximately \$50mn. It seems that with the change to a shared revenue model, that this figure may have been converted to an opportunity based the revenue potential at each of OHGI's mobile operator customer. Management indicated that it has a robust pipeline of high margin per subscriber fees, and we are hopeful that the company will clarify its outlook and backlog in the B2B business targeting emerging market carriers, given the declines in this segment.
- GAAP EPS came in at (\$0.04) for the quarter versus (\$0.03) for the first half of the year; OHGI limited cash use during the quarter to (\$0.1mn) used in operating activities during 1Q16, benefitting from working capital and improved collections.
- OHGI ended 1Q16 with cash on hand of \$1.6mn, with \$14.9mn in assets and \$9.1mn in shareholder's equity, including \$5.1m of current assets and \$9.7mn of intangibles. If OHGI's share price does not rise above \$1.00 for ten consecutive days, we would expect the company to pursue a reverse split in order to maintain its listing on the Nasdaq

New "Roam Like Home" application a positive sign in the emerging market operator business

- We were encouraged to see OHGI launch a new service for emerging market carriers. Roam Like Home offers subscribers the ability to take advantage of low coast roaming when travelling outside of their home market. It also has distinct advantages for carriers in their battle against competition from over-the-top services such as Skype, by enabling carriers to continue to profit from their subscribers when they are roaming.
- According to the announcement by the company, Roam Like Home makes offering roaming service 5x – 17x more cost effective for carriers by using OHGI's patented low data usage SmartPacket™ mobile VoIP smartphone app with the low inter-operator data roaming rates.



Source: Company

- The new service should create new high margin revenue for OHGI's service provider clients, who were previously losing revenues, as high data roaming fees were forcing prepaid subscribers to use WIFI-based OTT services when roaming. Moreover, the service represents a sizeable opportunity for OHGI, with a sales model that includes an additional license fee at the operator level, plus per-subscriber fees, which management estimates will be sold in blocks of 50,000. OHGI has five carriers on board already, including Smart Communications, the largest mobile operator in the Philippines with 55mn subscribers.
- OHGI company had accumulated an attractive customer base including 18 deals with Tier 1 and Tier 2 mobile operators, enabling them to offer their own VoIP solution to compete with OTT alternatives, but the conversion of man of these contracts to revenue share agreements rather than traditional technology / license deals has made it difficult to track the company's progress in this area. With the announcement of "Roam Like Home" in April, and the follow-on announcement that OHGI already had five operators on board with the service, we see this as a positive sign that OHGI is still being aggressive in this space even as it also focuses on growing the Aishuo business.

Moving OHGI Price target to \$3.85

- We are lowering our price target for OHGI to \$3.85 and updating our estimates to reflect recent revenues that came in below our expectations and the change in how the company receives revenues from operators on the Horizon platform. Given the new Roam Like Home application as well as management's comments about having a robust pipeline in the Horizon business over the next twelve months, we are still assuming growth in this unit in 2017E and beyond.
- It is worth noting that the recent successful IPO of Twilio (NYSE: TWLO), which operates a cloud-based API that allows software developers to programmatically make and receive phone calls, text messages and video chats, may attract more interest to innovation in the IP voice and communications space. OHGI could potentially make a similar case for its role as an enabler of innovative IP communications tools for emerging market mobile operators if applications like "Roam Like Home" and its VoIP solutions for mobile operators gain traction with end users, enabling the company to translate its pipeline into growing revenues.
- It is clear that the focus of OHGI management has been on growing the adoption of its Aishuo VoIP application in China. The company set a goal of reaching 15mn subscribers within the first two years of launch (February 2017), and has reported rapid growth in "subscriber downloads" that suggests the company is on target for reaching or surpassing this goal. On July 19, 2016, OHGI announced that Aishuo had surpassed 37mn subscriber downloads. What we are eager to see from the company is additional metrics on the conversion of downloads to active / engaged subscribers, as well as expectations for the timing and scope of monetizing subscriber downloads.
- OHGI is targeting a large potential market with its retail mobile VoIP offering in China. Although revenue generation from mobile VoIP in China has been slow to develop as the company is first seeking to grow a critical mass of subscribers, there are over 600mn smartphones in circulation in China – a figure expected to approach 1.2bn by 2018E, representing a massive opportunity for Aishuo if it can execute.

About One Horizon Group, Inc.

One Horizon Group, Inc. (Nasdaq: OHGI) is a leading developer and operator of carrier-grade optimized VoIP solutions for mobile telcos and enterprises. The company currently services over 37 million subscribers across 20 licensed brands worldwide. The technology is one of the world's most bandwidth-efficient mobile VoIP, messaging and advertising platforms for smartphones. Founded in 2012, the Company now has operations in Ireland, Switzerland, the United Kingdom, China, India, Singapore, Hong Kong and Latin America. For more information on the Company please visit <http://www.onehorizongroup.com>.



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