

Company Description: Opera is a Norwegian holding company, which provides with web browsers through its subsidiaries. Its products include Opera browser for Windows, iOS, and Linux computers; as well as the mobile apps Opera for Android, Opera Mini, Opera Touch, and Opera News. The company was founded in 1995, and is headquartered in Oslo, Norway. Opera went public on the NASDAQ on July 27, 2018.

STRONG BUY

Current Price: \$6.81
 Target Price: \$12.00
 Market Cap: \$749.5M
 P/E: 23.16
 Average volume: 287,220



Thesis:

Opera has a lot of revenue growth potential, as they are in the early stage of monetizing their ever-growing customer base -already over 320 million users per month. The stock was victim of macro factors since it went public, but financial results will catch analysts' interests within a year.

Catalysts:

- Short Term(within the year): **Monetization of Opera News + Opera Touch**
- Mid Term(1-2 years): **Stronger presence in European and American markets**
- Long Term(3+): **Gaining market share of "biased" competitors in the US**

Business description:

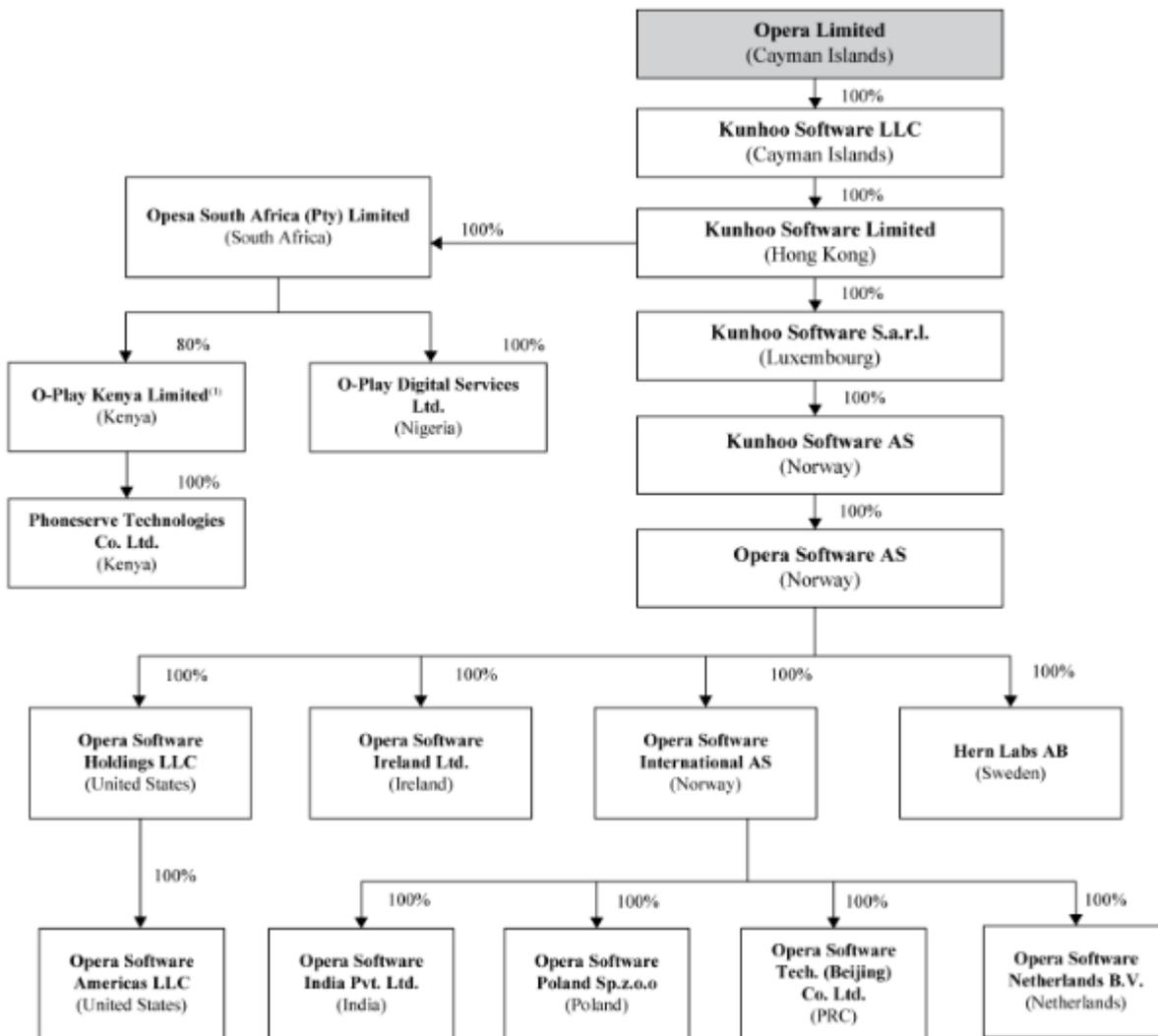
Opera is one of the world's leading browser providers and an influential player in the field of integrated Artificial Intelligence-driven digital content discovery and recommendation platform. Its headquarters are located in Oslo, Norway, and is incorporated in Cayman Islands. See the corporate structure here under.

From 1995 to March 2016, Opera was part of the company Otello, listed on the Oslo stock exchange with the ticker OTELLO. Two years after the spin-off, Opera Limited went public on July 27, 2018 as a foreign private issuer under the US Securities Exchange Act of 1934 and as such, is exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers. Opera also qualify as an "emerging growth company" by the JOBS Act of 2012, and may take advantage of specified reduced reporting and other requirements compared to those that are otherwise applicable generally to public

companies, such as the obligation of having the financial statements certified by external auditors. On July 27, 2018, Opera offered 9,600,000 American Depositary Shares (ADR) at \$12 per share, in addition to the 200,000,000 shares previously existing. The Net proceeds from the IPO were over \$110 million.

In 2017, 49% of Opera’s revenues were realized in Ireland, 14% in Russia and the remaining 37% were spread across the world. The revenues split from the first half of 2018 was as follow: 50.44% from search, 33.60% from advertising, and 15.96% from technology licensing.

As of July 2018, Opera served on average 321.7 million Monthly Active Users (MAU).



9) Prod Seg FA PROD »	2017 Rev	3Yr Gr
Search	68.2M	N.A.
Advertising	41.0M	N.A.
Technology Licensing / Other	19.7M	N.A.

Cost of Capital - Current Market Value				Capital Structure (Millions of USD)			
	Weight	Cost	W x C				
3) Equity	99.0%	27.1%	26.8%		Equity	583.5	99.0%
4) Debt Cost (A-T)	1.0%	1.8%	0.0%		ST Debt	2.1	0.4%
5) Preferred Equity	0.0%	0.0%	0.0%		LT Debt	4.0	0.7%
WACC			26.8%		Pref. Eqty	0.0	0.0%
				Total	589.6	100.0%	

6) History				Economic Value Added (Millions of USD)	
<input checked="" type="checkbox"/> WACC	<input type="checkbox"/> EVA	<input type="checkbox"/> ROIC	<input type="checkbox"/> EVA Spread	7) Net Operating Profit	10.24
				8) Cash Operating Taxes	-8.91
				NOPAT	19.14
				9) Total Investment Capital	604.19
				Capital Charge	161.96
				Economic Value Added	-142.82
				ROIC	3.17%
				EVA Spread	-23.64%

Earnings Performance:

Opera stock jumped +7.48% pre-market when the company announced its first quarterly results as a public company on August 23, 2018. Indeed, they presented spectacular increase in both revenues, and margins, record earnings for Opera. Operating revenues for Q2 2018 were \$39.8, so an increase of 50% compared to Q2 2017. The adjusted EBITDA margin increased by 25 points year over year to reach 40.6%, and Net Income was \$7.4 million, which is 18.6% of revenues, compared to a net loss of \$2.6 million in Q2 2017. The adjusted Net income represents 27.1% of revenues. Revenues in advertising, search, and technology licensing grew respectively by 63.1% (\$13.7 million), 26.2% (\$19.8 million), and 163.1% (\$6.3 million). The growth in advertising revenues is mainly explained by the launch of Opera News, as well as a stronger market presence in Europe and the United States, where prices tend to be higher. The increase in search revenues is due to review of partnership agreements in Europe and the US, improving the revenue share of Opera per search.

This monetization of products was even more appreciable as the operating expenses only increased by 1.2% year over year, totaling \$29.4 million. For now, a MAU only generates about \$0.50 of revenues per year, but this is expected to increase to \$0.80 in fiscal year 2019.

The highlights of the second quarter were the expansion of reach to new users of Opera News, the app launched in January 2018, which counted 101 million of average monthly users in the quarter, an increase of over 300% year over year. The users of Opera on smartphone reached 182.2 million during the quarter, which is a growth of 13.4%. The users of Opera on PC reached 57.1 million in the quarter, so an increase of 25.2%.

Opera launched during the second quarter Opera Touch, a companion mobile browser for PC, which enables seamless transitions between devices. This browser won a Red Dot Award for communication design on August 16, 2018.

Opera was holding \$48.1 million in cash before it went public, for a total debt of \$5.8 million.

	As of June 30, 2017 (Unaudited)	As of December 31, 2017 (Unaudited)	As of June 30, 2018 (Unaudited)
[Numbers in US\$ thousands]			
ASSETS			
Non-current assets			
Furniture, fixtures and equipment	13,828	13,460	13,213
Intangible assets	123,200	118,620	117,161
Goodwill	421,578	421,578	421,578
Investments in associates and joint ventures	470	5,517	4,126
Other financial assets	1,765	1,857	2,660
Deferred tax assets	783	958	1,117
Total non-current assets	561,623	561,989	559,855
Current assets			
Trade receivables	30,001	31,072	37,526
Other receivables	6,012	7,865	7,075
Prepayments	4,117	2,166	3,041
Cash and cash equivalents	21,099	33,207	43,993
Total current assets	61,228	74,311	91,636
TOTAL ASSETS	622,851	636,300	651,491
EQUITY AND LIABILITIES			
Equity			
Contributed equity	576,531	576,531	576,531
Retained earnings (accumulated deficit)	(8,395)	5,366	21,683
Other components of equity	852	1,605	372
Equity attributed to members	568,989	583,503	598,585
Non-controlling interests			
Total equity	568,989	583,503	598,585
Non-current liabilities			
Financial lease liabilities and other loans	3,438	4,032	3,237
Deferred tax liabilities	15,292	11,828	14,519
Other liabilities	1,685	87	109
Total non-current liabilities	20,415	15,947	17,865
Current liabilities			
Trade and other payables	19,175	21,401	21,804
Deferred revenue	2,604	1,472	2,182
Financial lease liabilities and other loans	3,024	2,073	2,589
Income tax payable	1,394	3,709	2,363
Other liabilities	7,250	8,195	6,102
Total current liabilities	33,447	36,850	35,041
Total liabilities	53,862	52,797	52,906
TOTAL EQUITY AND LIABILITIES	622,851	636,300	651,491

Non-IFRS financial measures

[Numbers in US\$ thousands]

Reconciliation of net income (loss) to adjusted EBITDA

	Q2-2017 (Unaudited)	Q2-2018 (Unaudited)	YTD-2017 (Unaudited)	YTD-2018 (Unaudited)
Net income (loss)	(2,551)	7,411	(2,719)	14,030
Add: Income tax expense (benefit)	697	2,535	938	4,824
Add: Total net financial loss (income)	(895)	(91)	(531)	(233)
Add: Share of net loss (income) of associates and joint ventures	218	615	573	1,624
Add: Restructuring costs	370	-	2,111	-
Add: Depreciation and amortization	3,605	3,379	7,406	6,766
Add: Share-based remuneration	2,807	218	2,807	2,667
Add: Expensed IPO related costs	-	2,110	-	2,110
Less: Other income	-	-	-	-
Adjusted EBITDA	4,250	16,175	10,586	31,788

Growth perspectives:

Opera expects that 2018 full-year revenue will amount to \$170-175 million, representing a growth between 32% and 36% year over year. This translates into a total expected revenue of \$91-96 million for the second half of 2018, with both sequential and year-over-year revenue growth in each of the third and fourth quarters likely to be driven by the search and advertising revenue categories. In order to achieve these results, Opera wish to keep focusing on Opera News, as the potential for user growth is the largest in their product portfolio.

Opera plans to use the proceeds of \$104.1M from the 2018 IPO to reinvest:

- 40% in R&D to strengthen AI-driven content discovery and recommendation platform and overall portfolio
- 25% for distribution and marketing to improve brand awareness
- 25% to chase strategic partnership and/or acquisitions
- 10% to cover working capital and other needs

In October 2018, after a strong user demand, Opera released its new app Opera Touch for Iphone, following the success of the app for Android released earlier during the year. Opera Touch is a completely new browser that challenges current, more traditional web browsers.

On October 8, 2018, they announced a strategic partnership with Ledger capital, the leading strategic blockchain advisory and financial services firm.

Competition:

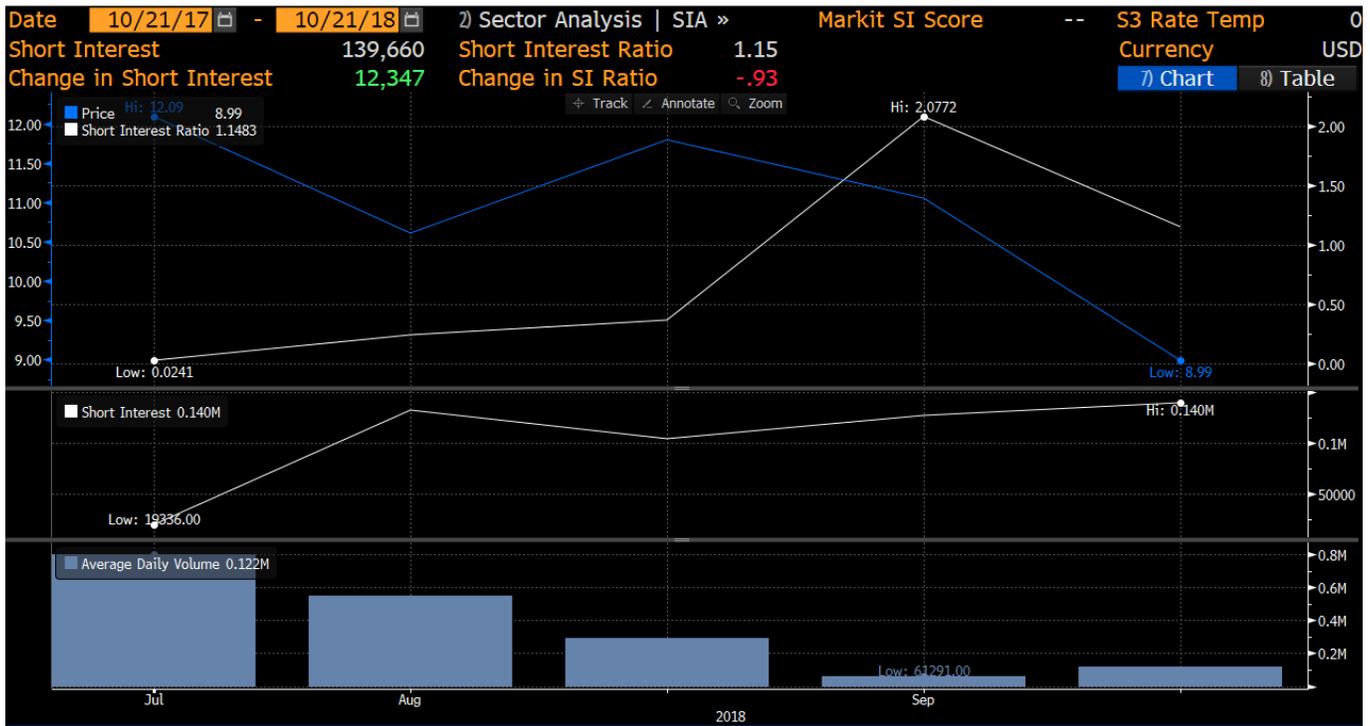
Opera is competing in the browser space against Tech giants, such as Alphabet, Apple, and Microsoft. In the content space, the competition is even stiffer, because it extends to all local and global news companies, where the barriers to entry are relatively low. So the new launch of Opera News app may be subject to additional competition in the future.

As of July 2018, Opera is the only mobile browser to add a built-in crypto wallet and Web 3.0 support. By introducing the crypto wallet, the Norwegian browser developer lowered the barrier of entry into the web of the future for users and developers alike. Since the wallet is built into the browser, internet users no longer need to install separate Dapp browsers or crypto wallet extensions. Opera also comes with a built-in add-blocker, along with a VPN. Privacy and security are one of the main focus of Opera experience.

Another competitive advantage of Opera is being a small, independent firm, giving an objectivity that is not equalized by its competitors. For example, Google was accused of being biased towards conservatives by the United States' President, and was obliged by the EU to quit bundle apps for Android, and this might be an opportunity for Opera to grab a foothold in the web browser in the U.S and Europe. However, it should be noted that Opera currently has a partnership agreement with Google for a share of revenues on browser searches in Ireland. There is no indication of a termination of this agreement at the moment.

Ownership:

As Opera went public only a few months ago, 100% of the traded shares appear to be held by Investment advisors.



Conclusion:

Opera Limited (OPRA) is a high-growth company, which has turned a profit this year. Since its IPO last July, Opera has been a victim of the Technology industry sell in the markets, which caused the price to fall by 43% in three months' time, as did many other technology 2018 IPOs. It is currently trading at \$6.81, which implies an enterprise value below 4.5 times the revenues estimates for fiscal year 2018 of \$170 million. Opera earnings show a continuing growth in users for all products, and it just starting to monetize it in revenues, promising even higher margins in the future, as the transformation into revenues and service to additional users don't incur significant incremental costs, thanks to unit economics.

Now is a good juncture to take a second look at Opera: the company has gotten considerably cheaper while also reporting a good first earnings quarter since it went public. Opera showed growing revenues and users, and managed to turn an operating profit positive.

