



## ASX Announcement

31 January 2018

### Linus Quarterly Activities Report – Period ending 31 December 2017

#### Overview

Linus Technologies Limited (ASX: LNU) is pleased to lodge its Quarterly Activities Report and Appendix 4C with the ASX for the quarter ending 31 December 2017.

During the December 2017 quarter the Company has continued its strategic focus, summarized as:

- Vision:** To make all of the worlds video accessible as data  
**Mission:** To become the *de facto* standard for the management and broadcast of video  
**Commercialization:** Linus patented VVE Technology to deliver to mass markets in 3 ways:
- Industry specific divisions and solution sets built around VVE
  - Mass distribution through partners, such as IBM
  - Self-service to global markets through a SaaS model

In the September 2017 quarter the Company published a list of near term goals which will deliver:

- Commercial validation of the technology
- Commercially deployed and repeatable technology sets
- Commercial agreements with clear paths to revenue

Summary of activities during December quarter:

- The Company has announced 6 of the 11 goals set in September and is executing firm delivery plans for a further 4.
  - For example, the 14 December 2017 announcement talked to the integration with Microsoft AI as part of the development of the search product
  - Note, the company made the decision to prioritize the recently announced release of its SaaS self-serve product over the personalized advertising capability in the quarter.
- Delivery of anti-piracy POC in a commercial environment
- Closed a fundraising round for A\$4.5 million to accelerate commercialization
- Hired Tom Slowe as EVP, Security and Defense, based in New York, and concluding build-out of divisional executive team
- Hired sales executives in the US

Linus is setting up the business to scale rapidly and globally. Microsoft, Amazon, and IBM are all investing heavily in artificial intelligence and micro-services. Currently, these rely on data being wrapped around the video file as the video file itself is an impenetrable object. With Linus the video file data is exposed, making video as flexible as all other forms of data. The Company is making key investments in easily replicable solution sets, providing the technology globally as a SaaS platform in major infrastructure providers such as IBM Cloud, Amazon AWS, and Microsoft Azure, while delivering commercial validation in each division.

#### **Appendix 4C Quarterly Report and statement of cash flows**

The ASX Appendix 4C Quarterly Report for December 2017 is attached to and lodged with this report. The Appendix 4C Quarterly Report covers the 3-month period and 6-months YTD to 31 December 2017 reflecting the net cash outflows incurred by the Company while pursuing its technology development, marketing and commercialization activities.

The cash balance at 31 December 2017 was \$3.53 million, following the December 2017 quarter operational cash burn of \$1.97m (outflow for the 6 months was \$3.44 million). The Company raised \$4.5million of capital in the December quarter, completing the \$6 million raise in the 2018 half year, through private placements with Village Roadshow Limited, the Kirby family, and other sophisticated investors. The Company has also issued 75m options exercisable at 7.5 cents. The exercise of these options resulted in additional funds raised of \$0.3m in the December quarter.

As required in section 9 of the Appendix 4C, estimated operational cash outflows for the March 2018 quarter are disclosed at \$2.8m. This includes estimates for large non-recurring investments of \$0.7m in Cloud, SaaS and AI capability across key user platforms such as IBM and Microsoft. This estimated cash outflow will be partly offset by additional funds received from the further exercise of 7.5 cent options on issue. Additional capital of \$0.5m has to-date been received subsequent to the close of the December quarter and further funds from the exercise of options are expected during the March quarter. These expected inflows are not catered for or reflected in Section 9 of the Appendix 4C.

#### **Near Term Goals**

Linus has launched its commercialization strategy, hired the commercial leaders and has an active new business pipeline. In September the Company published a list of near term goals. These goals reflect a mixture of near term commercial success and the Company's strategy of building out the organizational and technical infrastructure in line with our ambition to scale virtual video quickly around the world.

- ✓ Deliver the integration of VVE into IBM Cloud
- ✓ Engage with a global movie studio to develop POC in anti-piracy
- ✓ Deliver the integration of VVE with at least one world leading OTT platform
- ✓ Deliver the integration of VVE into Microsoft Azure
- ✓ Deliver the integration of VVE with at least one cognitive AI provider
- ✓ Deliver blockchain strategy and solution design
- Deliver POC of Search in a global cloud environment
- Engage with a global movie studio to develop a mass content distribution POC
- Convert initial deal flow with IBM
- Deliver an end-to-end piracy solution with a movie studio
- Deliver the integration of VVE with Major OTT ad servers

As of the end of December Linus had completed 6 of these 11 goals. Two of the goals were completed in the September quarter: Roadshow Films engaged to use Linus' anti-piracy solution for a high value 6-part TV mini-series to confirm POV; and the Company collaborated with Canadian strategic integrator MyPlanet to make the Linus VVE available on IBM Cloud.

### **Over-The-Top (OTT) Integration**

OTT — advertising video-on-demand (AVOD), subscription video-on-demand (SVOD), and transactional video-on-demand (TVOD) — accounted for \$46.5 billion US in 2017, expected to grow to \$83.4 billion US by 2022.<sup>1</sup> There are over 200 OTT providers in the US alone.<sup>2</sup>

Comcast Cable launched a new division in October 2016 — Comcast Technology Solutions — which united three of Comcast's media and technology businesses and in doing so created a globally dominant player at the nexus of broadcast and IP convergence. By integrating with Comcast's technology, Linus puts itself in a position to quickly deploy virtual video into the numerous clients of one of the world's largest OTT platforms, accelerating both deals and revenue.

### **Any Cloud, Any Time, Anywhere**

According to Forbes, the three dominant cloud providers are IBM, Amazon, and Microsoft.<sup>3</sup> Linus currently develops natively on Amazon AWS. Linus Video Virtualization Engine™ (VVE) became available on IBM Cloud in the September quarter and with the announcement of Microsoft Azure integration on 4 December 2017, has completed its near-term goal of being available on key cloud providers.

The integration with Microsoft is key to the Company's mission to scale rapidly and the vision of making the world's video available as data. These three major cloud providers are very focused on virtualizing the video management tools in the cloud, but only Linus can virtualize the actual video file. The Company believes that it is the missing link in these providers' video services.

### **Artificial Intelligence**

In line with Linus' strategy of integrating with Microsoft Azure, Amazon AWS, and IBM Cloud cloud providers, Linus is fast tracking its integration with global leaders in artificial intelligence (AI).

Linus owns video virtualization and is the missing link to the monetization of AI. By integrating Linus VVE, AIs for the first time become capable of both analyzing segments of video and creating new content — cognitive video creation. For example, integrated with AI providers, Linus transforms video search. For the first-time users can search within video and extract the only the parts of the video relevant to the search criteria. The technology is applicable across many multi-billion dollar markets including sports, entertainment, education and corporate communications.

### **Blockchain**

Linus aims to fulfill the promise of blockchain to move beyond cryptocurrencies. The Linus Blockchain will be used to protect, distribute and monetize the video itself. When a virtual file is transferred, the Linus

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<sup>1</sup> <https://www.rapidtvnews.com/2017120549962/global-ott-pay-tv-markets-to-grow-by-nearly-20-over-next-five-years.html#axzz55a6PH0mq>

<sup>2</sup> <https://www.parksassociates.com/blog/article/pr-11092017>

<sup>3</sup> <https://www.forbes.com/sites/bobevans1/2017/10/20/amazon-or-ibm-whos-the-king-of-cloud-revenue/#306439081691>

VVE will send the actual video data to be played out only after the content owners' rules have been satisfied.

With current methodologies, a video blockchain would be impossibly big due to the size of the video files. The Internet standard video format of MP4 does not work in a blockchain. Virtual videos are fractions of a percent of the size of current videos. They're ideally suited as digital assets, which can be recorded, transferred and managed by a blockchain.

### **Tom Slowe Completes Executive Team**

Linus has been pursuing a commercial strategy of targeting four segments: personalized advertising, video search, anti-piracy, and security and defense. With the appointment of Tom Slowe, the Company has rounded out its executive team with the last of the four divisional heads. Tom brings exceptional experience and the Company believes he is ideally suited to drive Linus' video business into the U.S. Department of Defense, U.S. intelligence agencies, and beyond.

Tom has worked in disruptive AI based technologies for over the last 20 years. An expert in machine learning as applied to video and other big data, he leverages his technical and business development background to achieve deep product/market fit. Prior to Linus, he held a number of executive and founding positions where he was responsible for providing products and services to Fortune 500 companies in the US Intelligence Community (IC) and Department of Defense (DoD). Tom received his BSEE from Rutgers University and MS from Massachusetts Institute of Technology (MIT) Media Laboratory.

### **Outlook**

Going forward, the Company intends to complete its near-term goals as well as other commercial initiatives, including the recently announced SaaS self-serve product and build upon them with relationships that scale the business and drive commercial activity.

Subsequent to the close of the quarter, the Company has announced that its core technology, VVE, is available to select partners and engineers under a SaaS model. This is consistent with Linus' announced commercialization plans and the Company expects to make the SaaS product widely available in the near future, in order to encourage development of technologies and new businesses based upon VVE.

The commercial function is actively deploying POVs (proofs of value) across our target sectors. POVs allow products to be tested and provide commercial case studies for roll out in direct sales and across channel partners.

Finally, the Company expects to begin reporting on its core metric — number of virtual videos created — in the near future.

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### **About Linus Technologies Limited:**

Linus Technologies Limited (ASX:LNU) has invented and patented the **Video Virtualization Engine™ (VVE)**, which is available on Amazon Web Services, Microsoft Azure and IBM Cloud.

Amazon, Microsoft and IBM are investing billions in virtualizing video services (technologies) and artificial intelligence in the cloud. It is arguably the biggest battle on the internet, given that video accounts for over 80 percent of internet traffic.

Only Linius can expose the data that makes up the video file, making cumbersome video as flexible as all other forms of data. Accessing the data within the video file is the missing link for video cloud service providers, creating unparalleled value across the internet video industry.

Linius has the potential to transform many multi-billion dollar markets, and is initially focused on:

- **Anti-Piracy:** Applying proven data protection methods to video to solve piracy
- **Search:** Search within videos and compile new videos on the fly
- **Security and Defense:** Intelligent search and immediate distribution of security footage
- **Personalized Advertising:** Hyper personalized to individuals, timeslots and content

**For more information please contact:**

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## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Linius Technologies Limited

**ABN**

84 149 796 332

**Quarter ended ("current quarter")**

31 December 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(505)	(778)
(b) operating costs	(574)	(986)
(c) advertising and marketing	(226)	(437)
(d) leased assets	-	-
(e) staff and consultant costs	(356)	(700)
(f) administration, travel and corporate costs	(283)	(442)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other – legal & patent costs	(23)	(93)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,966)</b>	<b>(3,434)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(3)	(7)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment		
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	<b>Net cash from / (used in) investing activities</b>	<b>(3)</b>	<b>(7)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	4,762	6,262
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options	(235)	(247)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	<b>Net cash from / (used in) financing activities</b>	<b>4,527</b>	<b>6,015</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	975	959
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,966)	(3,434)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(7)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,527	6,015

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>3,533</b>	<b>3,533</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	665	260
5.2	Call deposits	2,818	665
5.3	Bank overdrafts	-	-
5.4	Other – term deposits	50	50
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,533</b>	<b>975</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter  
\$A'000**

119  
-

Amounts in item 6.1 relate to remuneration of directors.

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter  
\$A'000**

-  
-

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	895
9.2 Operating costs	1,065
9.3 Advertising and marketing	190
9.4 Leased assets	-
9.5 Staff and consultant costs	395
9.6 Administration, travel and corporate costs	210
9.7 Other – legal & patent costs	20
<b>9.8 Total estimated cash outflows</b>	<b>2,775</b>

**Note:** The above estimates include estimates for large non-recurring investments of \$0.7m in Cloud, SaaS and AI capability across key user platforms such as IBM and Microsoft. The total estimated cash outflows will be partly offset by additional funds received from the exercise of 7.5cent options on issue. Additional capital of \$0.5m has to-date been received subsequent to the close of the December quarter and further funds from the exercise of options are expected during the March quarter.

10. <b>Acquisitions and disposals of business entities</b> <b>(items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

### **Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 31 January 2018

Print name: Stephen Kerr

### **Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.