

# Foresight Autonomous Holdings

Q317 results

Cash burn up slightly, stronger balance sheet

Foresight Autonomous (FRSX) was able to achieve a number of milestones during Q317. These included tests with two major Chinese auto manufacturers, demonstration of a proof of concept for FRXS's road traffic preventions system using thermal and visible light cameras and a successful system demonstration of its all-weather ADAS system for use in electric vehicles with Uniti Sweden. With higher R&D spend, cash burn rose slightly to \$1.5m in the third quarter, up from a quarterly average of \$1.2m in H1. The group nevertheless ended the quarter with \$3.2m higher net cash balances helped by \$5.0m cash inflow from warrant conversions during the period.

Year end	Revenue (\$m)	EBITDA* (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	EV/revenue (x)	P/E (x)
12/16	0.0	(3.3)	(3.4)	(0.05)	0.00	N/A	N/A
12/17e	0.0	(5.8)	(5.7)	(0.06)	0.00	N/A	N/A
12/18e	1.1	(11.5)	(11.5)	(0.10)	0.00	71.0	N/A
12/19e	14.6	(8.6)	(8.7)	(0.08)	0.00	5.6	N/A

Note: \*EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Mostly non-cash swings

FRSX reported a normalised Q3 net loss of \$2.1m principally due to a boost to spending on R&D to \$1.0m, which, stripping out employee share option payment (ESOP) outlays, almost equalled the entire H1 spend of \$1.1m. The group nevertheless reported a net profit of \$4.5m in Q317 after a \$7.0m boost from the revaluation of warrant liabilities. We have maintained our FY17 normalised loss forecast of \$5.7m, but on the back of this revaluation of warrant liabilities and an increase in our ESOP payment forecasts of \$0.9m, we have reduced our reported net loss forecast by \$6.1m to \$24.3m.

## Warrants a good source of cash

The third quarter results show the potential earnings volatility arising from the share price changes given the group's high level of warrant issuance. At the underlying level, however, the high warrant issuance has helped create a strong balance sheet and should help fund further growth. Even at a NIS3.05 share price, we estimate a further \$21.5m in potential fund inflows from conversion of in-the-money warrants.

## Valuation: 2% dip to NIS5.05 on warrant dilution

Our underlying \$131m DCF enterprise value estimate for FRXS has remained unchanged despite the revisions made to our forecasts. Nevertheless, our DCF share valuation has been reduced from NIS5.15 per share to NIS5.05 due to the impact of the recent decline in the share price on the dilution for full conversion of in-the-money warrants.

## Software & comp services

12 December 2017

**Price per share\*** **NIS2.60**
**Price per ADR\*** **\$3.54**
**Market cap** **NIS284m**
**Market cap ADR** **\$78m**

\*Priced at 06 December 2017 NIS3.4955/US\$

Net cash (\$m) at 30 September 2017 21.5

Shares in issue 109.4m

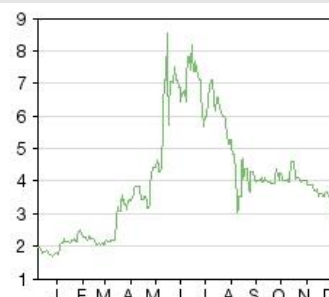
Free float 67.2%

Code FRXS

Primary exchange TASE

Secondary exchange Nasdaq

## Share price performance



% 1m 3m 12m

Abs (33.4) (35.6) 32.6

Rel (local) (34.1) (38.2) 27.1

52-week high/low NIS8.5 NIS1.7

## Business description

Foresight Autonomous (FRSX) is a development-stage technology company in Israel developing ADAS systems based on technology developed by its parent company Magna BSP. FRXS also has a 24.8% stake in rail ADAS specialist Rail Vision.

## Next events

FY17 results February, 2018

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## Quarterly earnings update

Foresight Autonomous demonstrated continued progress in bringing the group's ADAS product to market, with the addition of two further successful Chinese pilot trials, bringing the total to three, as well as a demonstration of capability with electric car start-up Uniti Sweden. Another milestone achievement was the demonstration of proof of concept of a multispectral advanced driver assistance system (ADAS) utilising both infrared and visible light cameras to provide superior all-weather capabilities. (For further information, please see our outlook note [Well placed for China's ADAS revolution](#), 31 October 2017).

### Exhibit 1: Foresight Autonomous quarterly earnings summary

\$000s, US GAAP	2016	H116	H117	Q316	Q317	9M16	9M17	2017e
<b>Profit and loss statement</b>								
Revenue	0	0	0	0	0	0	0	0
R&D costs	(904)	(319)	(1,275)	(277)	(1,144)	(596)	(2,419)	(3,355)
R&D excluding ESOP payments	(904)	(319)	(1,092)	(277)	(982)	(596)	(2,074)	(2,822)
Marketing and Sales	(224)	(105)	(513)	(55)	(263)	(160)	(776)	(750)
M&S excluding ESOP payments	(224)	(105)	(253)	(55)	(169)	(160)	(422)	(290)
General and admin expenses (net of D&A)	(2,627)	(1,484)	(2,337)	(498)	(684)	(1,982)	(3,021)	(4,204)
G&A excluding ESOP payments	(2,627)	(1,484)	(1,141)	(387)	(516)	(1,658)	(1,657)	(2,658)
Other	0	0	0	0	0	0	0	(6)
Total opex	(3,755)	(1,908)	(4,125)	(830)	(2,091)	(2,738)	(6,216)	(8,315)
EBITDA reported	(3,755)	(1,908)	(4,098)	(827)	(2,076)	(2,733)	(6,186)	(8,305)
EBITDA reported margin (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Of which share based payments, exceptionals	(405)	(213)	(1,639)	(111)	(424)	(324)	(2,063)	(2,539)
EBITDA normalised	(3,350)	(1,695)	(2,459)	(716)	(1,652)	(2,409)	(4,123)	(5,766)
Depreciation and amortisation	0	0	(27)	(3)	(15)	(5)	(30)	(10)
Operating profit reported	(3,755)	(1,908)	(4,125)	(830)	(2,091)	(2,738)	(6,216)	(8,315)
Operating profit normalised	(3,350)	(1,695)	(2,486)	(719)	(1,667)	(2,414)	(4,153)	(5,776)
Finance income (expenses)	103	53	656	38	(76)	91	580	793
Equity accounted profit	(108)	0	(383)	0	(343)	0	(726)	(700)
Revaluation of derivative warrant liability income	1,847	438	(16,050)	1,315	6,976	1,753	(16,074)	(16,050)
Profit before tax reported	(1,913)	(1,417)	(19,902)	523	4,466	(894)	(22,436)	(24,272)
add back Total exceptional items	(1,442)	(225)	17,689	(1,204)	(6,552)	(1,429)	18,137	18,589
Profit before tax normalised	(3,355)	(1,642)	(2,213)	(681)	(2,086)	(2,323)	(4,299)	(5,683)
Tax	0	0	0	0	0	0	0	0
Net profit reported	(1,913)	(1,417)	(19,902)	523	4,466	(894)	(22,436)	(24,272)
Net profit normalised	(3,355)	(1,642)	(2,213)	(681)	(2,086)	(2,323)	(4,299)	(5,683)
<b>Key cash flow/balance sheet data</b>								
Total operating cash flows	(3,458)	(1,793)	(2,757)	(443)	(1,464)	(1,665)	(3,794)	(5,757)
Cash incr. (burn) for period – operating + investing	(3,747)	(1,793)	(2,561)	(1,098)	(1,533)	(2,329)	(3,943)	(5,364)
Share issue/(repurchase)/warrant issue and exercise	6,256	4,940	16,300	845	5,050	5,052	21,391	22,012
Closing net debt/(cash)	(3,754)	(5,042)	(18,277)	N/A	(21,524)	N/A	(21,524)	(20,570)
<b>Per share calculations</b>								
EPS normalised basic (\$)	(0.05)	(0.03)	(0.03)	(0.01)	(0.02)	(0.03)	(0.05)	(0.06)
EPS reported basic (\$)	(0.03)	(0.02)	(0.24)	0.01	0.04	(0.01)	(0.25)	(0.26)
DPS (\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares at period end (m)	73.1	70.0	100.0	71.9	106.1	71.9	106.1	109.4
Average number of shares over period (m)	67.3	64.6	82.1	70.9	103.1	69.3	89.6	93.4

Source: Foresight Autonomous accounts, Edison Investment Research

The group reported a Q3 normalised net loss of \$2.1m (H117: \$2.2m) on the back of a normalised operating loss of \$1.7m (H117: \$2.5m). The increased quarterly loss principally arose from increased spending on R&D. This climbed to \$1.0m after stripping out ESOP outlays, almost reaching the entire H1 R&D spend of \$1.1m, and reflecting the work undertaken to demonstrate the multispectral proof of concept and further input into pilot trials. This was partly offset by sharply lower G&A costs, which excluding ESOP were reigned in to one-third of the H1 spend, at \$0.5m.

The share of losses of associate Rail Vision also increased in Q3 to \$0.3m from a quarterly average of \$0.2m in H117. Similar to FRSX, the group is at the high spending stage of product finalisation and demonstration and marketing, resulting in surging costs ahead of becoming revenue generative. In November, Rail Vision announced that it was considering a Nasdaq listing.

As mentioned above, the group generated operating cash outflows of \$1.5m in Q317 as compared with an average quarterly outflow of \$1.4m in H1. Taking capex into account, total cash burn was \$1.5m after a quarterly average of \$1.3m in H117. These costs were more than met by \$5.0m in cash inflows arising from warrant conversion during the period, which were boosted by the strong share price performance in the early part of the quarter, which sharply increased the total pool of in-the-money warrants.

## Changes in forecasts

We have updated our 2017 forecasts, with the most impact at the reported net income line, where we have reduced our loss forecast by 20% to \$24.3m. The key factors in this revision are the addition of the \$7.0 revaluation of warrant liability income item in Q317 into our full year forecast, reflecting the impact of the falling share price since late July and the fact that the share price remains below the end-Q3 level. These sums are excluded from the adjusted earnings totals.

We also assume an increase in our forecast of employee share option payments (ESOP) by \$0.9m in 2017 to reflect further payouts of \$0.4m in Q3 after \$1.6m in H117. These sums are excluded from the adjusted earnings totals.

An additional factor is continued conversions of warrants, which have increased the number of shares in issue by 2.1m or 1.9% since our last note on 31 October, with a slight dilutive effect on forecast EPS.

**Exhibit 2: Change in forecasts**

	EPS* (\$ per share)			PBT* (\$m)			Net income reported (\$m)			EBITDA (\$m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
12/16	(0.077)		0.0	(3.35)		0.0	(1.90)		0.0	(3.34)	(3.34)	0.0
12/17e	(0.061)	(0.061)	0.0	(5.68)	(5.68)	0.0	(30.37)	(24.27)	(20.1)	(5.77)	(5.77)	0.0
12/18e	(0.107)	(0.106)	0.0	(11.45)	(11.45)	0.0	(12.31)	(12.31)	0.0	(11.50)	(11.50)	0.0
12/19e	(0.081)	(0.081)	0.0	(8.70)	(8.70)	0.0	(9.77)	(9.77)	0.0	(8.58)	(8.58)	0.0

Source: Edison Investment Research. Note \*Normalised.

## Valuation: Dilution calculation brings DCF down 2% to NIS5.05

As can be seen from Exhibit 3, we continue to derive a materially unchanged enterprise value for FRSX of \$131m after our forecast revisions. However, the use of the currently lower NIS2.60 share price for the calculation of dilution impact inclusion of in-the-money warrants results in a reduction in our per share DCF valuation from NIS5.15 to NIS5.05 (see Exhibit 3).

**Exhibit 3: DCF valuation**

\$m	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2026e norm.
Revenue	0.0	1.1	14.6	42.1	65.1	102.6	144.0	186.5	224.4	262.3	262.3
change y-o-y	N/A	N/A	1175.6%	188.0%	54.5%	57.7%	40.3%	29.5%	20.4%	16.9%	0.0%
EBITDA reported	(8.3)	(12.4)	(9.6)	0.7	9.8	30.0	41.0	53.1	64.0	74.8	70.8
EBITDA margin	N/A	N/A	N/A	1.6%	15.1%	29.2%	28.5%	28.5%	28.5%	28.5%	27.0%
Change in working capital	0.0	0.0	(2.8)	(4.3)	(3.5)	(6.5)	(5.6)	(6.6)	(6.0)	(6.4)	(5.2)
Capex	(0.4)	(0.2)	(0.3)	(0.4)	(1.4)	(1.4)	(1.8)	(2.3)	(2.6)	(3.0)	(5.2)
EBITDA - capex	(8.7)	(12.6)	(9.9)	0.3	8.4	28.5	39.2	50.9	61.3	71.7	65.6
Tax	0.0	0.0	0.0	0.0	0.0	0.0	(10.2)	(13.2)	(15.9)	(19.3)	(17.6)
Change in working capital	0.0	0.0	(2.8)	(4.3)	(3.5)	(6.5)	(5.6)	(6.6)	(6.0)	(6.4)	(5.2)
Other non-cash items	2.5	0.9	1.1	1.5	2.0	2.2	2.5	2.6	2.5	2.5	2.5
Free cash flow	(6.2)	(11.7)	(11.6)	(2.5)	6.9	24.2	25.8	33.6	42.0	48.5	45.2
Terminal value										388.0	
Total cashflow	(6.2)	(11.7)	(11.6)	(2.5)	6.9	24.2	25.8	33.6	42.0	436.5	
Discounted cashflows	(5.4)	(8.8)	(7.7)	(1.4)	3.4	10.5	9.7	11.0	11.9	107.9	
<b>Enterprise value</b>	<b>131.0</b>										
Equity valuation	177.8						(3.8)			NIS/US\$ FX rate applied	3.4934
Value of Rail Vision Stake	19.6									Adjustment for:	WACC
Total group value	197.5						(23.9)			Equity issues/merger funding 2017 ytd	Terminal growth rate
Number of shares, diluted (m)*	136.5						(19.1)			Theoretical cash in-the-money ESOP/warrant exercise	Terminal value/EV
<b>Value per share (NIS)</b>	<b>5.05</b>						(46.8)			Adjusted net debt (cash)	73%

Source: Edison Investment Research. Note \*Diluted for in-the-money warrants. Value of Rail Vision stake is as per our 31 October 2017 note.

**Exhibit 4: Financial summary**

	\$m	2016	2017e	2018e	2019e	2020e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
<b>INCOME STATEMENT</b>						
Revenue		0.0	0.0	1.1	14.6	42.1
Cost of Sales		N/A	0.0	(1.7)	(9.4)	(20.2)
Gross Profit		N/A	0.0	(0.6)	5.2	21.9
EBITDA		(3.3)	(5.8)	(11.5)	(8.6)	2.2
Normalised operating profit		(3.3)	(5.8)	(11.5)	(8.6)	2.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Share-based payments		(0.4)	(2.5)	(0.9)	(1.1)	(1.5)
Reported operating profit		(3.8)	(8.3)	(12.4)	(9.7)	0.6
Net Interest		0.1	0.8	0.1	(0.1)	(0.3)
Joint ventures & associates (post tax)		(0.1)	(0.7)	0.0	0.0	0.0
Exceptionals		1.8	(16.1)	0.0	0.0	0.0
Profit before tax (norm)		(3.4)	(5.7)	(11.5)	(8.7)	1.8
Profit before tax (reported)		(1.9)	(24.3)	(12.3)	(9.8)	0.3
Reported tax		0.0	0.0	0.0	0.0	0.0
Profit after tax (norm)		(3.4)	(5.7)	(11.5)	(8.7)	1.8
Profit after tax (reported)		(1.9)	(24.3)	(12.3)	(9.8)	0.3
Minority interests		0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(3.4)	(5.7)	(11.5)	(8.7)	1.8
Net income (reported)		(1.9)	(24.3)	(12.3)	(9.8)	0.3
Basic average number of shares outstanding (m)		67.3	93.4	109.4	109.4	109.4
EPS – basic normalised (\$)		(0.050)	(0.061)	(0.105)	(0.080)	0.017
EPS – diluted normalised (\$)		(0.050)	(0.061)	(0.105)	(0.080)	0.013
EPS – basic reported (\$)		(0.028)	(0.260)	(0.113)	(0.089)	0.003
Dividend (\$)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	N/A	N/A	1,175.6	188.0
Gross margin (%)		N/A	N/A	-51.8	35.6	52.1
EBITDA margin (%)		N/A	N/A	-1002.9	-58.6	5.1
Normalised operating margin (%)		N/A	N/A	-1004.9	-58.9	5.0
<b>BALANCE SHEET</b>						
Fixed assets		1.4	0.5	0.7	1.0	1.3
Intangible assets		0.0	0.0	0.0	0.0	0.0
Tangible assets		0.1	0.5	0.7	1.0	1.3
Investments & other		1.3	0.0	0.0	0.0	0.0
Current assets		3.9	22.5	10.9	3.5	8.0
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		0.0	0.4	0.4	2.4	6.9
Cash & cash equivalents		3.8	22.0	10.4	1.0	1.0
Other		0.1	0.1	0.1	0.1	0.1
Current liabilities		(0.5)	(0.5)	(0.5)	(2.1)	(5.1)
Creditors		(0.5)	(0.5)	(0.5)	(0.1)	(0.3)
Tax and social security		0.0	0.0	0.0	0.0	0.0
Short-term borrowings		0.0	0.0	0.0	(2.0)	(4.8)
Other		0.0	0.0	0.0	0.0	0.0
Long-term liabilities		(0.1)	(15.2)	(15.2)	(15.2)	(15.2)
Long-term borrowings		0.0	0.0	0.0	0.0	0.0
Warrant conversion and other long-term liabilities		(0.1)	(15.2)	(15.2)	(15.2)	(15.2)
Net assets		4.7	7.3	(4.1)	(12.8)	(11.0)
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		4.7	7.3	(4.1)	(12.8)	(11.0)
<b>CASH FLOW</b>						
Operating cash flow before WC and tax		(3.3)	(5.8)	(11.5)	(8.6)	2.2
Working capital		0.8	(0.4)	0.0	(2.4)	(4.3)
Exceptional & other		0.2	0.0	0.0	0.0	0.0
Tax		0.0	0.0	0.0	0.0	0.0
Net operating cash flow		(2.4)	(6.1)	(11.5)	(11.0)	(2.1)
Capex		(0.1)	(0.4)	(0.2)	(0.3)	(0.4)
Acquisitions/disposals		(1.3)	0.0	0.0	0.0	0.0
Net interest		0.0	0.8	0.1	(0.1)	(0.3)
Equity financing		6.3	23.8	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		1.2	0.0	0.0	0.0	0.0
Net cash flow		3.8	18.1	(11.6)	(11.4)	(2.8)
Opening net debt/(cash)		0.0	(3.8)	(22.0)	(10.4)	1.0
FX		0.0	0.2	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(3.8)	(22.0)	(10.4)	1.0	3.8

Source: Foresight Autonomous accounts, Edison Investment Research

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