Zacks Small-Cap Research

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Finjan Holdings (FNJN-NASDAQ)

FNJN: Zacks Company Report – Finjan Wins $15 m from Sophos

Based on the average EV to Sales of comparable companies in the IP business we believe FNJN Stock could be worth $7.18 per share by next year if it does indeed collect the Blue Coat judgment as expected.

Current Price (09/21/16)	$1.76
Valuation	**$7.18**

UPDATE

Finjan is positioned to grow not only by pursuing IP licensing, but also by penetrating cybersecurity consulting services, and investing in new IP via R&D and in cybersecurity startups. Its new consulting business is having slow start. Preferred stock issued in May reduced earnings for common shareholders. In 2017 we expect it to collect over $40 million from Blue Coat, and $15 million from Sophos if the rulings are upheld on appeal, and for the company to retire its remaining preferred stock.

SUMMARY DATA

52-Week High	**$1.98**
52-Week Low	**$0.83**
One-Year Return (%)	**-3.6**
Beta	**-1.3**
Average Daily Volume (sh)	**54,928**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$40**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**27**
Insider Ownership (%)	**65**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/M**
Earnings Per Share (%)	**N/M**
Dividend (%)	**N/M**
P/E using TTM EPS	**N/M**
P/E using 2016 Estimate	**N/M**
P/E using 2017 Estimate	**1.9**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Internet-Software**

ZACKS ESTIMATES

Revenue
(in millions of $- Restated)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	0.0 R	0.0 R	5.0 A	0.0 A	5.0 A
2015	0.0 A	0.7 A	0.0 A	4.0 A	4.7 A
2016	2.3 A	6.5 A	1.1 E	0.1 E	10.0 E
2017	4.6 E	1.0 E	46.0 E	1.0 E	58.5 E

Earnings per Share
(Restated EPS is continuing operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.08 R	-$0.15 R	$0.03 R	-$0.18 A	-$0.38 A
2015	-$0.19 A	-$0.12 A	-$0.21 A	-$0.05 A	-$0.56 A
2016	-$0.05 A	-$0.20 A	-$0.20 E	-$0.16 E	-$0.61 E
2017	$0.05 E	-$0.08 E	$1.35 E	-$0.11 E	$0.95 E

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WHAT'S NEW

Jury In Sophos Trial Awards Finjan $15 million

Finjan won its trial against Sophos yesterday and was awarded $15 million for the life of the patents. This was at the high end of the range that an expert witness suggested. The jury decided that Sophos infringed upon all eight patents. It also decided the infringement was not willful and that Sophos has not proved that the patents were invalid. We now need to see if Sophos will appeal this award. Yesterday Sophos stated "the verdict is the next step in an ongoing process, and it will consider its options, including appealing the decision." If it does not appeal, Finjan expects to receive payment in Q4 of 2016 or Q1 of 2017. If Sophos does decide to appeal, and the court does not overturn the ruling on appeal, collection could drag out until Q1 2018. In order to be conservative, and in light of the fact that the litigation with Sophos has been going on for six years, we are not increasing our 2016 or 2017 estimates at this point because we assume this case will be appealed. Once we know it is not, we will put the $15 million into our estimates. Because of this win, other potential licensees will have further impetus to strike a deal, and the preferred stock should be redeemed even more quickly.

New Patent Awarded for Mobile Code

On September 13, 2016, the United States Patent & Trademark Office issued U.S. Patent No. 9,444,844 to Finjan, entitled "Malicious Mobile Code Runtime Monitoring System and Methods." "Like our core patented technologies that provide multiple layers of cyber protection, the grant of our 28th U.S. patent adds another layer of protection to our on-going innovations. Moreover, it demonstrates that Finjan's technology remains relevant, sustainable, worthy of protection, and valuable," commented Julie Mar-Spinola, Finjan Holding's Chief IP Officer.

Still Awaiting More Possible Settlements

Palo Alto Networks (PANW) may have its stay lifted since the Patent Office ruled on Finjan's patents. It may be more amenable to a licensing deal as this hurdle cleared. Of the 13 petitions for IPR, the PTAB has denied seven petitions in Finjan's favor, partially denied (and partially granted) three petitions, and granted three petitions for review.

FireEye (FEYE) is still stayed, but the company expects the stay to be lifted shortly. The USPTO is finalizing its re-examination and review of two patents in that case.

RECAP: The Win Against Blue Coat

The big win for Finjan against Blue Coat on August 5, 2015 awarded the company $40 million plus additional interest per year at the one-year T-bill rate and some further royalties. The company estimates this could total $46 million by the time it is collected, of which, 20% will go to the litigating law firm. Symantec acquired blue Coat on August 1, 2016 for $4.5 billion and Finjan is in litigation with Symantec, making a settlement exponentially more complicated. In order to put more pressure on Blue Coat to settle before the appeal process slated for next year, Finjan filed a motion for preliminary injunction on July 28, 2016 against Blue Coat. The preliminary injunction would prohibit Blue Coat from making, using, offering to sell or selling within the U.S. or import into the U.S. the Dynamic Real-Time Rating component of their WebPulse product. A court date has been set for **November 10, 2016**.

In addition to the appeal process for this judgment, there is the new suit against Blue Coat that encompasses seven patents and addresses new products that have been introduced by Blue Coat since the lawsuit just won was filed in 2013. Specifically the company named certain of Blue Coat's ProxySG

Appliances and Software, the ProxyAV Appliances and Software, and WebPulse Services (some of which Blue Coat recently launched) as products that are infringing. The patents Finjan believes are being infringed upon in this new suit are: 6,154,844; 6,965,968; 7,418,731; 8,079,086; 8,225,408; 8,566,580 and 8,677,494, the last four of which are being asserted against Blue Coat for the first time.

KEY POINTS

- Finjan holds a number of pioneering patents for cybersecurity hardware and software that is relevant to dozens of companies in this space.
- While it has already won a $46 million judgment against Blue Coat, its biggest opportunity is its litigation with Symantec, a much larger company that just bought Blue Coat on August 1, 2016.
- The company is continuing to file new patents.
- While its patents have already generated > $150M in its licensing and enforcement track record, the company has the potential to continue to reap large licensing revenues from the $21 billion market for cybersecurity software, services and appliance market.
- The technology licensing market in the U.S., once an afterthought, has grown from $33 billion in 1994 to $68 billion in 2002 and is likely over $100 billion today.
- The company's win against Blue Coat proves its patents are still valued and able to be successfully defended and therefore monetized.
- The company's has a market cap of $45 million and could be worth considerably more if it is successful in its licensing pursuits. Estimating revenues of $58.5 million in 2017 and an industry multiple of 2.8 times sales, the company could be worth as much as $162 million in enterprise value by 2017 if it succeeds in reaching new licensing arrangements and collecting the Blue Coat win.

OVERVIEW

Finjan Holdings is a patent licensing and enforcement firm based in East Palo Alto, California that owns the patents of its predecessor company Finjan Inc., a cybersecurity company that was founded in Israel in 1997. It invented several technologies that are used in current cybersecurity products today. Its three main patent areas:

- Behavior-based methods to detect and prevent threats from the Internet, including email and Web malware
- "Sandboxing" or stripping applications and running potentially malicious code in a safe environment
- Mobile code replacement where the malicious code is stripped and replaced by safe code

THE PRESENT COMPANY ENFORCEMENT

Company	Date and Location	Status	Patent numbers
FireEye **($623 million)**	US District Court for the Northern District of California on July 8, 2013	Stayed pending review by PTAB.	**6,804,780**, 8,079,086, 7,975,305, 8,225,408, **7,058,822**, 7,647,633 and 6,154,844
Blue Coat **(est. >$500m)**	US District Court for the Northern District of California on August 28, 2013	**Won $40m judgment. All patents upheld. Only 7,058,822 did not infringe.** Post-trial motions April 28, 2016 Injunction hearing Nov. 10, 2106.	6,154,844, **6,804,780**, 6,965,968, **7,058,822**, 7,418,731, and 7,647,633
	US District Court for the Northern District of California on July 16, 2015	Trial date October 30, 2017	6,154,844; 6,965,968; 7,418,731; 8,079,086; 8,225,408; 8,566,580; 8,677,494
Proofpoint **($265 million)**	United States District Court for the Northern District of California on December 16, 2013	Settled May 23, 2016 for $10.9 million.	6,154,844, **7,058,822**, 7,613,918, 7,647,633, 7,975,305, 8,079,086, 8,141,154, and 8,225,408
Sophos **($447 million)**	United States District Court for the Northern District of California on March 14, 2014	Won $15m judgment. JMOL in Q4 2016.	6,154,844, **6,804,780**, 7,613,926, 8,141,154, 8,566,580, and 8,677,494
Symantec **($6.5 billion)**	United States District Court for the Northern District of California on June 1, 2014	Stay lifted August 1, 2016. Proposed schedule submitted. Estimated trial date H1 2018.	6,154,844; 7,613,926; 7,756,996; 7,757,289; 7,930,299; 8,015,182; 8,141,154; and 8,677,494
Palo Alto Networks ($1.1 billion)	United States District Court for the Northern District of California on November 4, 2014	Review completed by PTAB. Waiting for stay to be lifted.	**6,804,780**; 6,965,968; **7,058,822**; 7,418,731; 7,613,918; 7,613,926; 7,647,633; 8,141,154; 8,225,408; and 8,677,494
ESET	United States District Court for the Northern District of California on July 1, 2016 German District Court in Dusseldorf	Suing for minimum of $44 million. German trial expected Q2 2017.	**6,154,844; 6,804,780;** 7,975,305; 8,079,086; 9,189,621; and 9,219,755. European Patent No. EP 0965094

Highlighted patent numbers have been successfully defended in court.

VALUATION

Valuation of an IP company, even with a track record, is very difficult. It is even more so with a company like Finjan that has only two court victories, four recent licensing arrangements, and no recurring revenues. We can however look at other IP companies to see how the market values them to make some comparisons. There seems to be two different types of companies in this space, the older stable revenue generating companies like Rambus (RMBS), and the upstarts that trade on events and potential. We can see from the table below, this ranges from Pendrell (PCO) with a $7 million enterprise value, to Interdigital (IDCC) with an enterprise value of $2.1 billion and $457 million in sales expected this year. On average, the companies with revenues trade at an average of 2.8X 2016 estimated calendar revenues.

Using a valuation based on enterprise value to sales is easier for unprofitable companies. If Finjan were to generate $59 million in sales in 2017, we could see the market putting a 2.8 times sales multiple on it as shown in the industry average below. Using that and working back to enterprise value per share, we see that given those revenues, Finjan could be worth $7.18 per share by 2017, assuming it achieves our estimated revenue levels in 2016 from licensing and consulting in addition to a settlement received from Blue Coat if the appeal is won. The Sophos win of $15 million has not yet been added to revenues. We expect that money to come in in 2018 after appeal, but if there is no appeal that number should be in 2017 revenues and that will increase the company's valuation further.

Company	Ticker	Revenue 2016E	Revenue LTM	EV/ EBITDA	EBIDTA Margin	Enterprise Value / Sales 2016E	Enterprise Value / Sales LTM	Included in Average?	Enterprise Value
Acacia Research	ACTG	$119	$117	11.4x	11%	1.3x	1.3x	y	$150
Interdigital	IDCC	$457	$396	9.5x	55%	4.5x	5.2x	y	$2,070
Inventergy Global	INVT	$9	$2	-3.5x	-251%	2.2x	8.9x	y	$19
Marathon	MARA	$42	$50	3.9x	27%	1.2x	1.0x	y	$52
Neonode	NEON	$15	$12	-10.9x	-42%	3.8x	4.6x	y	$55
Network-1	NTIP	NA	$35	1.2x	64%	NA	0.8x	n	$27
Parkervision	PRKR	$3	$0	-3.5x	NM	18.5x	766.3x	n	$57
Pendrell	PCO	$36	$75	0.2x	52%	0.2x	0.1x	n	$7
Rambus	RMBS	$320	$300	11.7x	34%	4.0x	4.3x	y	$1,290
RPX	RPXC	$338	$304	1.8x	66%	1.5x	1.7x	y	$513
Tessera	TSRA	$261	$256	6.2x	69%	5.1x	5.2x	y	$1,340
VirnetX	VHC	$150	$2	-5.1x	NM	0.9x	91.3x	n	$142
FORM Holdings	FH	NA	$36	3.4x	12%	NM	0.4x	n	$15
Wi-Lan	WILN	$89	$94	1.7x	65%	1.2x	1.1x	y	$103
Average				**3.5x**	**4%**	**2.8x**	**3.7x**		**$621**

	Revenue 2017E	Revenue LTM	EBITDA Margin	Enterprise Value / Sales 2017E	Enterprise Value / Sales LTM	Valuation Range Low	Valuation Range High
Finjan	**$59**	**$13**	**-154%**	**2.8x**	**3.7x**	**$48**	**$162**

Conclusion of Enterprise Value	**$161,639,161**
Market Value	**$163,739,161**
Shares Outstanding	22,796,255
Price per Share	**$7.18**

Another way to look at possible revenues from current activity is to compare the relevant revenues of the various companies involved. We are taking a general guess that 20% of Websense's revenues were affected by Finjan patents which resulted in a licensing fee of $8 million before the Markman Hearing. Proofpoint just yielded $10.9 million right at the pre-trial hearing.

The jury in the Sophos case awarded Finjan $15 million, the high end of the expert witnesses range. Blue Coat went through the full trial and was awarded $40 million. The sum is already up to $46 million as interest and royalties for additional products sold during the litigation process is added on. Looking at the rest of the companies we can derive revenues $296 million adding actuals and for similar licensing at the same stage as Websense. Judgments, of course, may be all over the place.

	2015 Revenues	% Relevant	License	Judgment
Estimated				
FireEye	$623	30%	$18.7	
Proofpoint	265	50%	13.3	
Symantec (2 segments)	4,200	30%	126.0	
Palo Alto Networks	1,100	27%	30.0	
Total potential			187.9	
Actual				
Blue Coat				40.0
Websense	DK	DK	8.0	
Avast Software	DK	DK	3.0	
Undisclosed	DK	DK	3.7	
Proofpoint	265		10.9	
European undisclosed			0.6	
Sophos	**447**	**DK**	**-**	**15.0**
Total actual	DK	DK	26.1	55.0
TOTAL			$241.0	
Plus Blue Coat & Sophos			**296.0**	

Cybersecurity companies

The new consulting venture, once it starts to generate meaningful revenues, will have different peer comparables where valuations are much higher. For example, FireEye bought Madiant for $1 billion or approximately 7 times sales. Another comparable would be root9b, a company with $141 million enterprise value and a run rate of $38 million, or 3.7 times.

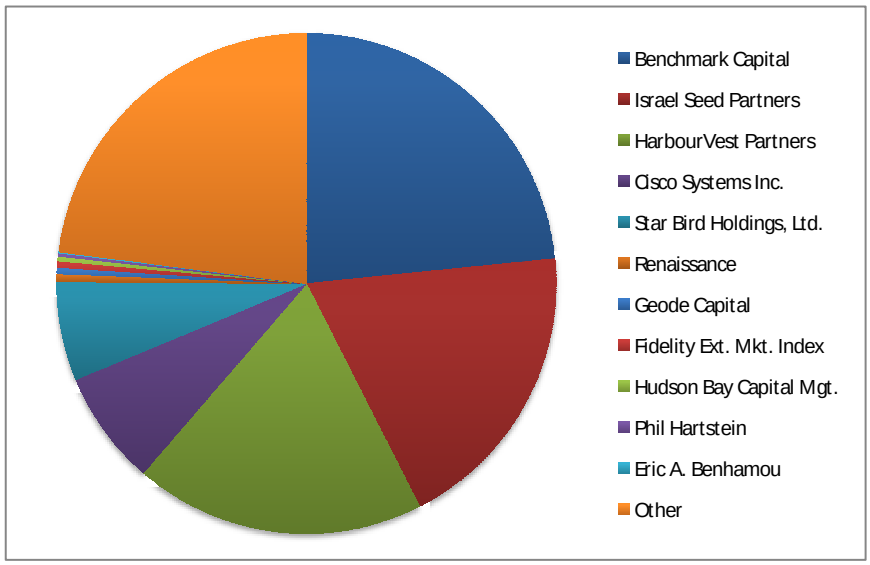
RISKS

- The company has a limited track record with which to set expectations.
- There is no way to predict the timing of lawsuit settlements or licensing agreements, or even the length of a lawsuit.
- The stock is high risk and is expected to have wide swings in stock price depending on unpredictable events.

- Government is expected to legislate new laws on patent enforcement that could affect the company's ability to monetize its patents as it currently expects.

OWNERSHIP

As of September 22, 2016



INCOME STATEMENT

	2016E				2017E						
In Thousands	**Q1**	**Q2**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2015**	**2016E**	**2017E**
Websense	$2,000	$0	$0	$0	$1,000	$0	$0	$0	$0	$2,000	$1,000
Other licenses	300	2,178	1,000	0	2,650	0	0	0	4,675	3,478	6,700
CybeRisk Security Solutions	20	50	50	100	1000	1000	1000	1000	12	220	2,500
Blue Coat	0	0	0	0	0	0	45,000	0	0	0	45,000
Proofpoint	0	4,300	0	0					0	4,300	3,300
Sophos											0
Total Revenues	**2,320**	**6,528**	**1,050**	**100**	**4,650**	**1,000**	**46,000**	**1,000**	**4,687**	**9,998**	**58,500**
Cost of revenues	0	2,237	4	7	0	70	9,070	70	814	2,248	13,830
Gross profit	2,320	4,291	1,047	93	4,650	930	36,930	930	3,873	7,751	44,670
Gross Margin	100%	66%	100%	93%	100%	93%	80%	93%	83%	78%	76%
Operating Expenses:											
SG&A	3,433	3,339	4,600	3,600	3,433	3,500	3,500	3,500	17,362	14,972	20,000
R&D	51	54	50	50	51	50	50	50	391	205	200
Total operating expenses	3,484	3,393	4,650	3,650	3,484	3,550	3,550	3,550	17,753	15,177	20,200
Operating Income	(1,164)	898	(3,604)	(3,557)	1,166	(2,620)	33,380	(2,620)	(13,880)	(7,427)	24,470
Other Income											
Gain on settlements	0	0	0	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	0	1,271	0	0
Interest income	1	0	0	0	1	0	0	0	12	1	100
Total other income	1	0	0	0	1	0	0	0	1,283	1	100
Pretax profit	(1,163)	898	(3,604)	(3,557)	1,167	(2,620)	33,380	(2,620)	(12,597)	(7,426)	24,570
Income taxes	-	-	-	-	-	-	-	-	5	5	5
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	(1,163)	898	(3,604)	(3,557)	1,167	(2,620)	33,380	(2,620)	(12,602)	(7,431)	24,565
Accretion of Preferred Stock	-	(5,480)	(920)	-	-	(816)	-	-	-	(6,400)	(816)
Net inc. to common shareholders	(1,163)	(4,582)	(4,524)	(3,557)	1,167	(1,804)	33,380	(2,620)	(12,602)	(13,831)	23,749
Net Income Per Share:											
EPS	**($0.05)**	**($0.20)**	**($0.20)**	**($0.16)**	**$0.05**	**($0.08)**	**$1.46**	**($0.11)**	**($0.56)**	**($0.61)**	$0.95
Diluted EPS	($0.05)	($0.20)	($0.18)	($0.14)	$0.05	($0.08)	$1.35	($0.11)	($0.52)	($0.55)	**$0.95**
Avg Shares Outstanding	22,709	22,764	22,862	22,850	22,709	22,757	22,800	22,850	22,549	22,796	22,633
Diluted Shares	24,628	24,973	25,071	25,059	24,535	24,676	24,719	24,769	24,444	24,933	25,071
Stock-based Comp	142	311	311	311	142	142	142	142	766	1075	1075
Non-GAAP Income	(1,021)	(4,271)	(4,213)	(3,246)	1,309	(2,478)	33,522	(2,478)	(11,836)	(12,756)	24,824
Non-GAAP EPS	**($0.04)**	**($0.19)**	**($0.18)**	**($0.14)**	**$0.06**	**($0.11)**	**$1.47**	**($0.11)**	**($0.52)**	**($0.56)**	**$0.99**

BALANCE SHEET

$ in Thousands	June 30, 2016	March 31, 2016	% Change
Current assets:			
Cash and cash equivalents	$17,229	$5,062	240%
Prepaid expenses and other current assets	189	284	-33%
Total current assets	17,418	5,346	226%
Property and equipment, net	230	243	-5%
Investments	2,445	2,195	11%
Other long term assets	324	325	0%
Total Assets	20,417	8,109	152%
Current Liabilities:			
Accounts payable	1,196	2,181	-45%
Accounts payable - related parties	18	21	-14%
Accrued expenses	2963	446	564%
Accrued income taxes	9	9	0%
Total current liabilities	4,186	2,657	58%
Other non-current liabilities	134	131	2%
Total Liabilities	4,320	2,788	55%
Redeemable Preferred Stock	14,970	0	NM
Stockholders' Equity			
Common stock	2	2	0%
Additional paid-in capital	18,996	24,088	-21%
Retained earnings	(17,870)	(18,769)	-5%
Total Stockholders' Equity	1,127	5,321	-79%
Total Liabilities & Stockholders' Equity	$20,417	$8,109	152%
Cash per share	$0.76	$0.22	240%
Working Capital	$13,232	$2,689	392%
Quick ratio	4.2	2.0	107%
Debt/TA	73%	0%	NM

CASH FLOW

	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	March 31, 2015
Cash flows from operating activities:						
Net loss	$ 899	$ (1,163)	$ (1,059)	$ (4,700)	$ (2,641)	$ (4,202)
Adjustments to reconcile net loss to net cash used in operating activities:						
Gain on Investment	0	0	0	0	(1,271)	0
Depreciation and amortization	13	14	15	9	19	7
Loss on disposal of assets	0	0	34	0	0	0
Stock-based compensation	311	142	124	187	100	355
Changes in operating assets and liabilities:						
Accounts receivable	0	0	0	0	55	1,961
Inventories	0	0	0	0	0	0
Prepaid expenses and other current assets	95	38	(81)	(23)	(153)	47
Other long-term assets	1	0	(24)	(70)	0	(231)
Accrued expenses	2,517	(4)	13	(361)	(44)	42
Accounts payable	(985)	(39)	72	669	152	(348)
Accounts payable - related parties	(3)	4	9	0	(10)	(82)
Other assets	0	0	97	65	0	0
Other liabilities	3	(31)	0	0	0	0
Accrued income taxes	0	0	1	0	0	8
Total Adjustments	1,628	(32)	87	280	0	1,397
Net cash used in operating activities	2,851	(1,039)	260	476	(1,152)	(2,443)
Cash flows from investing activities:						
Purchases of property and equipment	0	0	(11)	(54)	(133)	(77)
Proceeds from investment	0	0	0	0	826	0
Purchase of additional investment	(250)	0	(250)	(500)	0	0
Net cash provided by (used in) investing activities	(250)	0	(261)	(554)	693	(77)
Proceeds from exercise of stock options						
Proceeds for sale of Preferred, net	9,490	0				
Proceeds from exercise of stock options	76	0	97	29	0	20
Net cash provided by financing activities	9,566	0	97	29	0	20
Net decrease in cash and cash equivalents	12,167	(1,039)	96	(49)	(3,100)	(2,500)
Cash and cash equivalents - beginning	15,005	6,101	7,156	11,905	15,005	17,505
Cash and cash equivalents - ending	17,229	15,005	6,101	7,156	11,905	15,005
Cash paid for income taxes	0	0	7	0	0	0
Non-cash investing and financing activities						
Additional investment held by investee	0	0	0	0	445	0
Accretion of preferred stock to redemption value	5,480	0				
Purchase of property and equipment in exchange for finance agreement	0	0	0	0	0	0
Operating cash Flow	**1,223**	**(1,007)**	**(886)**	**(4,504)**	**(3,793)**	**(3,840)**
Free cash flow	973	(1,007)	(1,125)	(4,950)	(2,834)	(3,763)

HISTORICAL STOCK PRICE



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