Zacks Small-Cap Research

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Finjan Holdings (FNJN-NASDAQ)

FNJN: Raising Q4 and Full Year Estimates Due to Avast License

UPDATE

Finjan, is positioned to grow not only by pursuing IP licensing, but also by cybersecurity consulting and investment new IP via R&D. Its August win against Blue Coat is spurring new licensing deals as shown by its new $3 million deal with Avast announced today. We expect the company to collect over $40 million from Blue Coat in 2017 if it wins the appeal.

Current Recommendation	**Buy**
Prior Recommendation	Buy
Date of Last Change	9/15/2014
Current Price (11/13/15)	$1.34
Target Price	**$3.75**

SUMMARY DATA

52-Week High	**$3.13**
52-Week Low	**$1.23**
One-Year Return (%)	**-48.1**
Beta	**-0.84**
Average Daily Volume (sh)	**22,202**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$30**
Short Interest Ratio (days)	**1.90**
Institutional Ownership (%)	**27**
Insider Ownership (%)	**30**
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 2015 Estimate	**N/M**
P/E using 2016 Estimate	**N/M**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Blend**
Industry	**Internet-Software**

ZACKS ESTIMATES

Revenue
(in millions of $- Restated)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.0 R	0.0 R	0.0 R	0.0 R	0.0 R
2014	0.0 R	0.0 R	5.0 R	0.0 A	5.0 A
2015	0.0 A	0.7 A	0.0 A	3.3 E	4.0 E
2016	4.6 E	2.7 E	2.8 E	3.0 E	13.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	NA	NA	NA	NA	-$0.26 A
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	-$0.06 E	-$0.63 E
2016	-$0.01 E	-$0.11 E	-$0.10 E	-$0.09 E	-$0.37 E

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New Avast License Agreement to Be Booked in Q4 2015

Avast agreed to license Finjan's patents and will pay the company $2.975 million by November 30, 2015. As a result we are raising revenues and earnings for Q4 2015, and therefor the year.

For Q4 revenues are now projected to be $3.3 million versus $5.0 million in Q4 2014. We believe this license will be at 90% gross margins as the deal as is typical with its license deals and as a result are reducing the loss per share for the quarter to $0.06 versus a loss of $0.23 in 2014.

This raises the company's revenue estimate for the year to $4.0 million in revenues and a loss of $0.63. Added to the cash balance at September 30, 2015 this will give the company $10.2 million. By January 15, 2016 it will receive another $2 million, and another $300,000 by March 30, 2016 from previously scheduled payments. This would bring cash up to $12.5 million. Given the company's recent burn rate of $4.5 million, that is not 12 months of cash, so we expect more deals coming.

NEXT EVENTS

We are still waiting for the results of the Markman hearing with Proofpoint that took place on June 24, 2015. The judge as explained above has stayed the results from the Markman hearing with Symantec that occurred on June 29, 2015. The Proofpoint trial is scheduled to start March 7, 2016.

Finjan v. Palo Alto Networks (PANW) has been reassigned and all pending dates will be reset in accordance with the new judges calendar. In Finjan v. Symantec (SYMC), the judge has stayed the case pending a decision by the US Patent and Trademark Office (USPTO) on whether to institute Inter Partes Review (IPR) of Finjan's patent claims in five of eight patents asserted against Symantec. Depending on the PTAB's decision on whether or not to institute those IPRs, the judge will determine whether to extend the stay. This pushes out the calendar on the largest possible win due to the size of Symantec's revenues in cybersecurity.

RECAP: The Win Against Blue Coat

The big win for Finjan against Blue Coat on August 5, 2015 awarded the company $40 million plus 10% interest per year. It has increased the value of Finjan significantly as more of its patents have proven to have value and it has more ammunition with which to convince other entities to license its technology. While all six patents were considered valid, the jury decided one, 822, was not applicable to Blue Coat's products. The award breakdown according to papers filed by the jury was as follows, with 844 being the big contributor.

Patent Number	*$ In Millions*	*Filed*
6,154,844	24.00	1997
7,058,822	0	2001
7,647,633	1.67	2005
7,418,731	6.00	2004
6,965,968	7.75	2003
6,804,780	0.11	2000

At any rate litigation with Blue Coat has not ended. Most likely should Blue Coat not settle, it will appeal, a process that could take another 12-18 months. We have tentative put revenue from this judgment in 2017. In addition there is the new suit against it 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. According to its press release "Finjan is seeking a jury trial; entry of judgment of direct and indirect infringement of certain claims of each of the asserted patents by Blue Coat; preliminary and permanent injunction against Blue Coat and its officers, among others, from infringing the asserted patents; and damages to be determined by a jury."

KEY POINTS

- Finjan holds a number of pioneering patents for cybersecurity hardware and software that is relevant to dozens of companies in this space.
- The company's non-compete with Trustwave has ended and they are pursuing new product launches.
- 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 $20 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 $30 million and approximately $7 million in cash but could be worth considerably more if it is successful in its licensing pursuits. Estimating revenues of $13 million in 2016 and $53 million in 2017 and an industry multiple of 3.4 times sales, the company could be worth as much as $189 million by 2017 if it succeeds in reaching new licensing arrangements.

OVERVIEW

Finjan Holdings is a patent licensing and enforcement firm based in NYC 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

CYBERSECURITY MARKET

The market for cyber security products that may use technology covered by Finjan patents is expected to total $20 billion in sales in 2014, according to estimates by Gartner. These types of products include: endpoint and cloud, web gateway and next generation firewall software and hardware products as shown on the following chart.

Relevant Security Markets	2013	2014	2015	2016	2017
Endpoint & Cloud	$11.2 BN	$11.8 BN	$12.5 BN	$13.2 BN	$13.8 BN
Web Gateway	$4.1 BN	$4.4 BN	$4.7 BN	$5.0 BN	$5.3 BN
Next Gen. Firewall	$4.0 BN	$4.0 BN	$4.0 BN	$3.7 BN	$3.4 BN
Total Finjan Technology related Sales	$19.3 BN	$20.2 BN	$21.2 BN	$21.9 BN	$22.5 BN

Source: Gartner, IDC and Finjan estimates

Cybersecurity Consulting Business

According to Gartner, the market for information security consulting grew by 8.1% to $15.3 billion in 2014, from $14.2 billion in 2013. Combined, the top 10 providers grew by 12.7%. Three quarters of revenue comes from North America and Western Europe. Deloitte was ranked number one in this market. Other players, and competitors for Finjan in the cybersecurity consulting business include FireEye's Mandiant division, Hacknetics, a division of Ernst & Young, and root9B (RTNB) as well as IBM and Symantec.

Litigation Update

Company	Date and Location	Status	Patent numbers
FireEye **($426 m)**	US District Court for the Northern District of California on July 8, 2013	Stayed	**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 US District Court for the Northern District of California on July 16, 2015	**Won $40m judgment. All patents upheld. Only 7,058,822 did not infringe.** Just filed	6,154,844, **6,804,780**, 6,965,968, **7,058,822**, 7,418,731, and 7,647,633 6,154,844; 6,965,968; 7,418,731; 8,079,086; 8,225,408; 8,566,580; 8,677,494
Proofpoint **($196 m)**	United States District Court for the Northern District of California on December 16, 2013	"Markman" occurred **June 24, 2015**. Awaiting results. Trial date for March 7, 2016.	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 **(est. $420 m)**	United States District Court for the Northern District of California on March 14, 2014	Markman concluded. Trial date September 16, 2016.	6,154,844, **6,804,780**, 7,613,918, 7,613,926, 7,757,289, 8,141,154, 8,566,580, and 8,677,494
Symantec **($6.6 billion)**	United States District Court for the Northern District of California on June 1, 2014	"Markman" occurred **June 29, 2015**. Awaiting results. Stayed pending decision by USPTO.	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 ($739 m)	United States District Court for the Northern District of California on November 4, 2014	Reassigned to another judge. "Markman" will be rescheduled.	**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

Highlighted patent numbers have been successfully defended in court.

VALUATION

Valuation of an IP company, even with a track record is very difficult and even more so with a company like Finjan that has only one court victory and one recent licensing arrangement. 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, and the upstarts that trade on events and potential. We can see from the table below, these range from Parkervision with a $14 million enterprise value, to Interdigital with an enterprise value of $1.5 billion and $407 million in sales expected this year. On average, the companies with revenues trade at an average of 3.3X 2015 estimated calendar revenues.

Using a valuation based on enterprise value to sales is easier for unprofitable companies. If Finjan were to generate $53 million in sales in 2017, we could see the market putting a 3.3 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 $8.12 per share by 2017, assuming it still has the same amount of cash on the balance sheet as today and achieves those revenue levels in 2016 by licensing in addition to whatever settlement is received from Blue Coat if the appeal is won.

IP Companies

Company	Ticker	Revenue 2015E	Revenue LTM	EV/ EBITDA	EBIDTA Margin	Enterprise Value / Sales 2015E	Enterprise Value / Sales LTM	Included in Average?	Enterprise Value
Interdigital	IDCC	$407	$416	6.7x	55%	3.6x	3.5x	y	$1,470
Inventergy Global	INVT	$4	$5	-4.4x	-110%	4.3x	3.2x	y	$16
Neonode	NEON	$13	$10	-9.5x	-125%	7.9x	10.6x	y	$105
Parkervision	PRKR	$0	$0	-0.7x	NM	126.8x	NM	n	$14
Pendrell	PCO	$29	$44	-28.9x	13%	0.7x	0.4x	y	$19
Rambus	RMBS	$293	$292	11.1x	34%	3.6x	3.6x	y	$1,050
RPX	RPXC	$287	$287	2.0x	72.90%	1.3x	1.3x	y	$369
Tessera	TSRA	$273	$271	6.7x	73%	4.7x	4.7x	y	$1,280
Unwired Planet	UPIP	$5	$5	-1.2x	-780%	9.3x	9.6x	n	$43
VirnetX	VHC	$20	$2	-4.6x	NM	6.9x	86.7x	n	$138
Vringo	VRNG	NA	$1	-1.1x	NM	NM	45.9x	n	$24
Wi-Lan	WILN	$99	$99	1.0x	72%	0.6x	0.6x	y	$64
Average				**-1.9x**	**11%**	**3.3x**	**3.5x**		**$547**

	Revenue 2017E	Revenue LTM	EBITDA Margin	Enterprise Value / Sales 2017E	Enterprise Value / Sales LTM	Valuation Range Low	Valuation Range High
Finjan	**$53**	**$1**	**-243.00%**	**3.3x**	**3.5x**	**$2**	**$177**

Conclusion of Enterprise Value	**$176,747,000**
Market Value	**$183,947,000**
Shares Outstanding	22,640,611
Price per Share	**$8.12**

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 at this stage in the litigation. This was settled before the Markman Hearing. Blue Coat went through the full trial and was awarded $40 million. If this is appealed and the company wins on appeal, the sum will be higher 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 over $224 million for similar licensing at the same stage as Websense. Judgments, of course, may be all over the place.

	Revenues	% Relevant		License	Judgment
FireEye	$428	30%	$128	$13	
Blue Coat	500	10%	$50	27	$40
Websense	400	20%	$80	8	
Proofpoint	186	50%	$93	9	
Sophos	420	25%	$105	11	
Symantec	4,200	30%	$1,260	126	
Palo Alto Networks	710	42%	$300	30	
TOTAL				**224**	

Cybersecurity companies

The new consulting venture 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.
- As the current company burns cash and has little licensing revenue, it may not generate enough revenues to cover costs and continue operations in the future unless it generates greater income or receives further financing.
- 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.

INCOME STATEMENT

	2015				2016							
In Thousands	**Q1**	**Q2**	**Q3**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2013R**	**2014**	**2015E**	**2016E**
Websense	$0	$0	$0	$0	$2,000	$0	$0	$0	$0	$4,998	$0	$2,000
Other licenses	0	700	0	2,975	2,250	2,250	2,250	2,250	0	0	3,675	9,000
Consulting & Products	0	0	0	300	300	400	550	750	0	0	300	2,000
Blue Coat					0	0	0	0	0	0	0	0
Total Revenues	**0**	**700**	**0**	**3,275**	**4,550**	**2,650**	**2,800**	**3,000**	**0**	**4,998**	**3,975**	**13,000**
Cost of revenues	0	60	0	318	255	186	196	210	0	800	378	1,900
Gross profit	0	640	0	2,958	4,295	2,465	2,604	2,790	0	4,198	3,598	11,100
Gross Margin		91%		90%	94%	93%	93%	93%		84%	91%	85%
Operating Expenses:												
SG&A	4,205	4,413	4,490	4,000	4,500	4,600	4,600	4,600	6,225	13,813	17,108	18,300
R&D		146	206	250	250	260	265	280	0	0	602	1,055
Transaction costs	0	0	0	0	0	0	0	0	790	0	0	0
Total operating expenses	4,205	4,559	4,696	4,250	4,500	4,860	4,865	4,880	7,015	13,813	17,710	19,355
Operating Income	(4,205)	(3,919)	1,596 (4,696)	(1,293)	(205)	(2,396)	(2,261)	(2,090)	(7,015)	(9,615)	(14,113)	(8,255)
Other Income												
Gain on settlements	0	0	0	0	0	0	0	0	1,000	1,000	0	0
Other income	(1)	1,271	0	0	0	0	0	0	9	0	0	0
Interest income	9	7	(4)	0	0	0	0	0	153	90	12	0
Total other income	8	1,278	(4)	0	0	0	0	0	1,162	1,090	12	0
Loss before taxes	(4,196)	(2,634)	(4,700)	(1,293)	(205)	(2,396)	(2,261)	(2,090)	(5,853)	(8,525)	(14,101)	(8,255)
Income taxes	5	0	0	(5)	-	-	-	-	(260)	5	0	0
Tax rate					0%	0%	0%	0%				0%
Net Income	(4,201)	(2,634)	(4,700)	(1,288)	(205)	(2,396)	(2,261)	(2,090)	(5,593)	(8,520)	(14,101)	(8,255)
Net Income Per Share:												
Basic EPS from Cont.	**($0.19)**	**($0.12)**	**($0.21)**	**($0.06)**	**($0.01)**	**($0.11)**	**($0.10)**	**($0.09)**	**($0.26)**	**($0.38)**	**($0.63)**	**($0.37)**
Diluted EPS	($0.19)	($0.12)	($0.19)	($0.06)	($0.01)	($0.11)	($0.09)	($0.09)	($0.26)	($0.38)	($0.58)	**($0.34)**
Basic Shares	22,409	22,519	22,562	22,641	22,641	22,519	22,562	22,641	21,602	22,404	22,533	22,591
Diluted Shares	24,315	24,435	24,468	24,547	24,547	24,425	24,468	24,547	23,227	24,209	24,441	24,497
Stock-based Comp	355	355	642	642	642	642	642	642	1189	1448	1994	2568
Non-GAAP Income	(3,846)	(2,279)	(4,058)	(646)	437	(1,754)	(1,619)	(1,448)	(4,404)	(7,072)	(12,107)	(5,687)
Non-GAAP EPS	**($0.17)**	**($0.10)**	**($0.18)**	**($0.03)**	**$0.02**	**($0.08)**	**($0.07)**	**($0.06)**	**($0.20)**	**($0.32)**	**($0.54)**	**($0.25)**

BALANCE SHEET

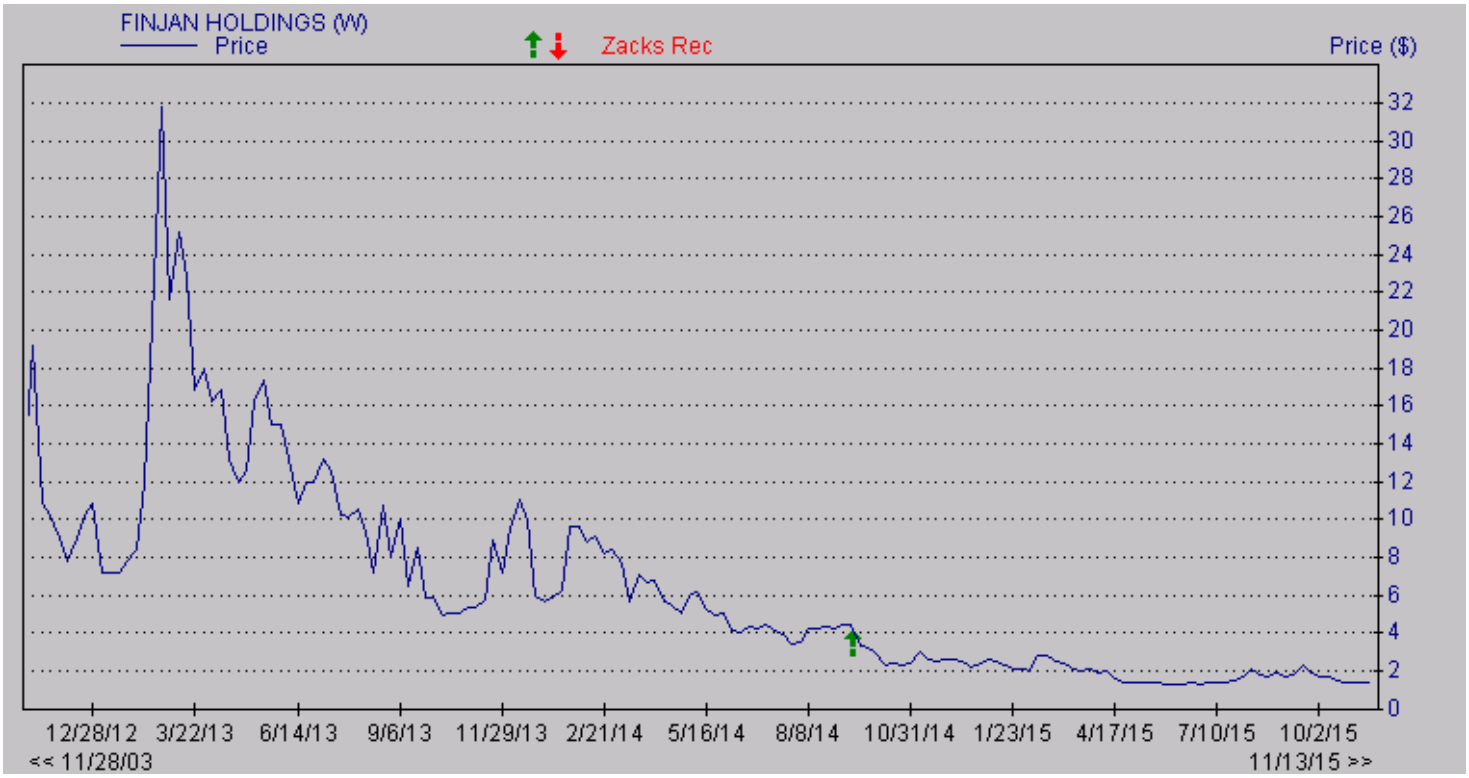
$ in Thousands	Sept 30, 2015	June 30, 2015	% Change
Current assets:			
Cash and cash equivalents	$7,156	$11,905	-40%
Accounts receivable, net	-	-	
Prepaid expenses and other current assets	241	218	11%
Total current assets	7,397	12,123	-39%
Property and equipment, net	295	250	18%
Investments	1945	1445	35%
Other long term assets	301	231	30%
Total Assets	9,938	14,049	-29%
Current Liabilities:			
Accounts payable	2,148	1,479	45%
Accounts payable - related parties	8	8	0%
Accrued expenses	437	798	-45%
Accrued income taxes	8	8	0%
Total current liabilities	2,601	2,293	13%
Other non-current liabilities	65	0	
Total Liabilities	2,666	2,293	16%
Stockholders' Equity			
Common stock	2	2	0%
Additional paid-in capital	23,817	23,601	1%
Retained earnings	(16,547)	(11,847)	40%
Total Stockholders' Equity	7,272	11,756	-38%
Total Liabilities & Stockholders' Equity	$9,938	$14,049	-29%
Cash per fully diluted share	$0.29	$0.49	-40%

CASH FLOW

CASH FLOWS (Unaudited) - $ in Thousands

	Sept. 30, 2015	Jun. 30, 2015	March 31, 2015
Cash flows from operating activities:			
Net loss	$ (4,700)	$ (2,641)	$ (4,202)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on discontinued operations	$ 0	$ 0	$ 0
Gain on Investment	$ 0	$ (1,271)	$ 0
Depreciation and amortization	$ 9	$ 19	$ 7
Stock-based compensation	$ 187	$ 100	$ 355
Deferred tax liability	$ 0	$ 0	$ 0
Changes in operating assets and liabilities:			
Accounts receivable	$ 0	$ 55	$ 1,961
Inventories	$ 0	$ 0	$ 0
Prepaid expenses and other current assets	$ (23)	$ (153)	$ 47
Other long-term assets	$ (70)	$ (231)	$ 0
Accrued expenses	$ (361)	$ (44)	$ 42
Accounts payable	$ 669	$ 152	$ (348)
Accounts payable - related parties	$ 0	$ (10)	$ (82)
Other long term assets	$ 65	$ 231	$ (231)
Other current liabilities	$ 0	$ 0	$ 0
Accrued income taxes	$ 0	$ 0	$ 8
Total Adjustments	$ 0	$ (1,397)	$ 1,397
Net cash used in operating activities	$ (4,224)	$ (3,793)	$ (2,443)
Cash flows from investing activities:			
Purchases of property and equipment	$ (54)	$ (133)	$ (77)
Proceeds from investment	$ 0	$ 826	$ 0
Purchase of additional investment	$ (500)	$ 0	$ 0
Net cash provided by (used in) investing activities	$ (554)	$ 693	$ (77)
Proceeds from exercise of stock options			
Proceeds from exercise of stock options	$ 29	$ 0	$ 20
Net cash provided by financing activities	$ 29	$ 0	$ 20
Net decrease in cash and cash equivalents	$ (4,749)	$ (3,100)	$ (2,500)
Cash and cash equivalents - beginning	$ 11,905	$ 15,005	$ 17,505
Cash and cash equivalents - ending	$ 7,156	$11,905	$ 15,005
Non-cash investing and financing activities			
Additional investment held by investee	$ 0	$ 445	$ 0
Purchase of property and equipment in exchange for finance agreement	$ 0	$ 0	$ 0
Cash Flow	$ (4,504)	$ (3,793)	$ (3,840)

STOCK PRICE CHART



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Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 25.4%, Hold/Neutral- 54.9%, Sell/Underperform – 16.0%. Data is as of midnight on the business day immediately prior to this publication.