Zacks Small-Cap Research

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GlassesOff Inc.

(GLSO-OTCQB)

GLSO: Developing a Sports App to Improve Real-Life On-Court Performance with NBA's Chris Paul…

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	08/26/2014
Current Price (11/18/15)	$2.49
Target Price	**$3.50**

On November 16, 2015, GlassesOff (GLSO) filed its Form 10-Q disclosing financial results for the third quarter ended September 30, 2015. During the third quarter 2015, the company reported revenues of $0.06 million.

GlassesOff is developing a sports app to improve real-life on-court performance with eight-time NBA All-Star, Los Angeles Clippers point guard Chris Paul. The company is also working on a significantly improved second version of the current "Reading Without Glasses" app that will provide users with a more engaging and enjoyable gaming experience.

After revising our model, we are maintaining our "Hold" rating and have adjusted our price target to $3.50 per share.

SUMMARY DATA

52-Week High	**$12.00**
52-Week Low	**$1.51**
One-Year Return (%)	**-64.43**
Beta	**-1.13**
Average Daily Volume (sh)	**977**
Shares Outstanding (mil)	**6**
Market Capitalization ($mil)	**$15**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**

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

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	0.03 A	0.02 A	0.02 A	0.05 A	0.11 A
2015	0.05 A	0.06 A	0.06 A	0.06 E	0.22 E
2016					0.92 E

Earnings per Share
(EPS is operating earnings)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-0.28 A	-0.24 A	-0.23 A	-0.23 A	-$0.98 A
2015	-0.21 A	-0.17 A	-0.19 A	-0.21 E	-$0.78 E
2016					-$0.72 E

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WHAT'S NEW

Financial & Business Update

On November 16, 2015, GlassesOff (GLSO) filed its Form 10-Q disclosing financial results for the third quarter ended September 30, 2015. During the third quarter 2015, the company reported revenues of $0.06 million, and was below our expectations. Revenues are derived solely from the sale of subscription fees for access to the GlassesOff app currently available in the GooglePlay and iOS App Store (iPhone, iPod, and iPad).

Net loss for the quarter was $1.1 million, or $0.19 per share. Net loss was driven by $0.07 million in cost of sales and royalty payments, $0.59 million in R&D, $0.27 million in S&M, and $0.26 million in G&A.

As of September 30, 2015, the company reported cash and equivalents of $1.5 million. Operating cash burn in the quarter was approximately $1 million. On September 21, 2015, the company issued $1.75 million in 8.0% Senior Unsecured Convertible Notes, which were issued together with warrants to acquire approximately 1.2 million shares of common stock at an exercise price of $2.19 per share.

We believe the existing cash position should be sufficient to fund operations through the end of 2015, but management will need to raise new cash as soon as possible. We estimate that the company will require approximately $5.5 million in order to fund operations for the next 5 quarters. As a reminder, in July 2014, GlassesOff secured access to new capital when it announced a committed equity financing facility that would enable the company to sell up to $15 million of its shares of common stock to YA Global Master SPV Ltd. over a period of up to 36 months. The company is not obligated to use the facility and may still initiate other financing transactions.

V2.0 Launch of "Read Without Glasses" App

We continue to be underwhelmed with the level of sales thus far since the launch of the GlassesOff App in December 2013. According to management, business is building up slowly, and is mostly based on PR activity. We were hoping that the sales and marketing campaign would pick up in the second half of the 2015, and would result in greater revenues. This wasn't the case. In 2014, there were 6,410 app purchases, and in 2015, the company estimates that there will be a total of 19,000 app purchases, which translates to $130k and $235k in sales, respectively. In our opinion, a product like the GlassesOff App needs significant marketing and promotion in order to drive sales.

We have recently learned that the company is expecting some major growth upon launch of V2.0, which is supposed to contain a significant improvement in user experience. The new version of the app will offer a more fun, game-like experience as opposed to the current more rigid, scientific experience. We see the appeal in a more interactive and exciting game like experience, and we are interested in seeing if this new version of the app will bring in more users. We will just have to continue to wait and see if sales ramp up after the app is improved and launched.

Sports App for Real-Life On-Court Performance

As we have mentioned in previous updates, while we see potential for the "Read Without Glasses" version of the application, it may be sports-related and gaming apps that drive the top-line at the company. In this regard, the company is in the midst of developing next-generation gaming apps aiming to enhance a user's sports performance through improved visual abilities and increased brain processing speed. The company plans to target initial markets of baseball and basketball, but we see significant potential in almost all sporting activities, including hockey, football, racing, hunting, soccer, and tennis. After all, we can't think of a major sporting activity where you do not use your eyes, or increased visual processing would not help in performance. Management at GlassesOff believes they can develop a gaming application that helps athletes, from children to professionals, that improves visual performance (how fast you see) and image quality (how clearly you see).

On August 27, 2015, GlassesOff announced a partnership with eight-time NBA All-Star, Los Angeles Clippers point guard Chris Paul (CP3) to develop a mobile app that is designed for professional and recreational basketball players who want to improve their real-life on-court performance. The app is intended to help players of all ages and all skill levels to improve on-court performance by incorporation of GlassesOff proprietary visual technology. The app aims to enhance a user's vision performance and brain processing speed, but is also designed as a casual, engaging, and fun-to-play game.



Source: GlassesOff Inc.

The new app is currently under development, and GlassesOff plans to launch the app during the first quarter of 2016. Based on our understanding, the app will be free to download from Apple's Appstore or Google Play, but users will have the option to make in-app purchases. The company expects to advertise and market its app based on the popularity and reputation of Chris Paul as a brand partner. The idea behind partnering up with famous athletes (such as Chris Paul) is that there are lower customer acquisition costs due to existing awareness and credibility of these public figures, which would lead to increased installs of the app by customers and in this case, CP3 or Clippers fans. Users may feel an emotional connection to the figure or celebrity, and with the unique online/offline integration feature, this may lead to in-app purchases. We would like to point out that Glu Mobile's (GLUU) Kim Kardashian app was launched in June 2014 and has generated over $100 million in sales. The app generated over 30% of Glu Mobile's revenues in 2014. This is also a free app with the ability to make in-app purchases. Games like Candy Crush or Clash of Clans are also multi-million dollar products. Glu Mobile generated revenues of $126 million in the first half of 2015 alone, up nearly 50% as compared to the same period in 2014.

GlassesOff plans to replicate the Chris Paul app in order to leverage revenue channels across multiple sports starting with baseball, and then possibly football, ice hockey, and lacrosse. The plan is for GlassesOff to eventually sign revenue-share partnerships with celebrities across different sports, and to launch localized versions with local talents across the globe in countries like Germany, France, Japan, etc. From our understanding, GlassesOff also plans to participate in various conferences and conventions internationally to further expose its products and technology to professionals, such as ophthalmologists, sports coaches and associations, and potentially form business partnerships.

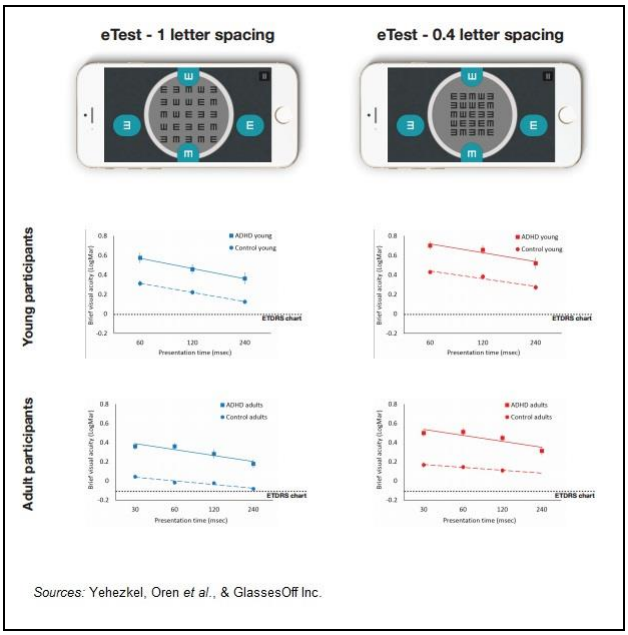
Review of Recent Clinical Data

GlassesOff is attempting to marry the company's strong scientific background with society's clear interest in engaging, fun, and addictive mobile games. GlassesOff aims to develop games that provide a true physiological benefit to the user, such as improved visual processing and/or reaction time. The company has been actively presenting clinical data showing benefits of the technology, and we will highlight the most recent results below.

In October 2015, GlassesOff presented results of a new study that showed improvement across several visual performance parameters, which is consistent with an increase in visual processing speed, at the Federation of European Neuroscience Societies (FENS) meeting in Greece. Visual processing speed is extremely important for optimal athletic performance in sports that require quick reaction time. Twenty young adults with normal or corrected-to-normal vision in both eyes participated in a total of 40 sessions, and their vision performance was tested before and after the study. The study showed that playing a simple, dynamic mobile game with GlassesOff's new dynamic technology could result in a significant real-life increase in visual processing speed. In addition, the required daily game-playing duration was successfully decreased to approximately five minutes, a 50% decrease from the older-generation GlassesOff platform technology. After using GlassesOff's new dynamic game-like technology, participants achieved significant improvement in both far and near visual performance, such as visual acuity, reaction time, stereo acuity and contrast sensitivity. This improvement, together with improvement in temporal masking is consistent with an increase of visual processing speed. We are very interested in learning more about the data as well as the new dynamic game-like technology.

In May 2015, GlassesOff announced results from a study in children and adults with attention deficit hyperactivity disorder (ADHD), demonstrating non-invasive, game-like technology that can provide an early indication of whether a child has ADHD and to what degree. The study included 45 adults, 28 of them previously diagnosed with ADHD

(age average SD: 25.6±10.4 SD) and 64 children, 21 of them previously diagnosed with ADHD (age average 9.3± 2.7 SD), all of whom had no history of neurological conditions and normal or corrected-to-normal vision in both eyes. Measurements were made on smartphones, using a prototype dynamic digital assessment tool developed by GlassesOff, and results were compared between participants with and without ADHD. Findings from a new study from GlassesOff show significant differences in the visual performance of children and adults with ADHD, as compared to children and adults who do not have ADHD, with respect to specific visual tasks.



Management believes a new GlassesOff application may be able to quantitatively measure these differences as a quantitative way to screen for the disorder. We believe the new application has utility as a tool that could be used to both monitor the patient and provide insight as to whether the medication and/or its dosing are effective, or should be modified.

Conclusion & Valuation

We believe that GlassesOff is focused on developing a product that demonstrates scientific efficacy but that is also very fun and exciting to use. We are hoping that the launch of V2.0 of the GlassesOff app under the new game experience platform in 2016 will attract more users, especially if the user experience is greatly improved. We still think that at this stage, GlassesOff is primarily devoted to development efforts including raising capital and recruiting and training personnel. We still feel as though the company will need to focus on significant sales and marketing initiatives in order to gain momentum. We believe it is imperative for GlassesOff to continue to invest in building marketing infrastructure, which includes developing public relations networks to raise awareness of the GlassesOff App, preparing marketing materials, and building a network of eye care practitioners to support and promote the GlassesOff platform and current as well as future products.

We are intrigued by the potential for a sports-related application, and we believe that partnering up with Chris Paul and other athletes could really help GlassesOff get the exposure it needs for its unique technology. The company plans to launch its first sports app during the first quarter of 2016. We believe that GlassesOff should continue partnering up with different athletes across a variety of sports in order to receive much needed exposure to increase its customer base and sales. We think a sports app has the potential to be a meaningful revenue driver for the company, and we are looking forward to learning more about the new app and testing it out.

Overall, we do still see potential for addictive gaming applications, and remain interested in what the next generation of the GlassesOff technology has in store for users. The biggest hurdle we see for the company is raising capital, and we really would like to see the company ramp up sales in the upcoming quarters now that it has a new-dynamic game-like platform in place. As before, we continue to take a wait and see approach with the stock. We were hoping that the sales and marketing campaign would pick up in the second half of the 2015, but we think that shifting focus onto the Chris Paul sports app and second version of the GlassesOff app could possibly help to drive sales in the coming quarters.

Based on the lack of significant revenues generated thus far and the lack of significant cash on the balance sheet, we have revised our financial model. In order to arrive at our target price, we chose a universe of comparable companies that include names such as GLU Mobile, Zynga, Gamevil, and Electronic Arts. After updating the model, the mean P/S ratio is 4.9x current sales. Due to the upcoming launches of the new sports app and the V2.0 "Read Without Glasses" app, we applied this ratio to our full year 2016 estimate of $0.9 million in total revenues, and discounted it 25% in order to get to a current price target of $3.50 per share. We continue to rate the stock a "Hold."

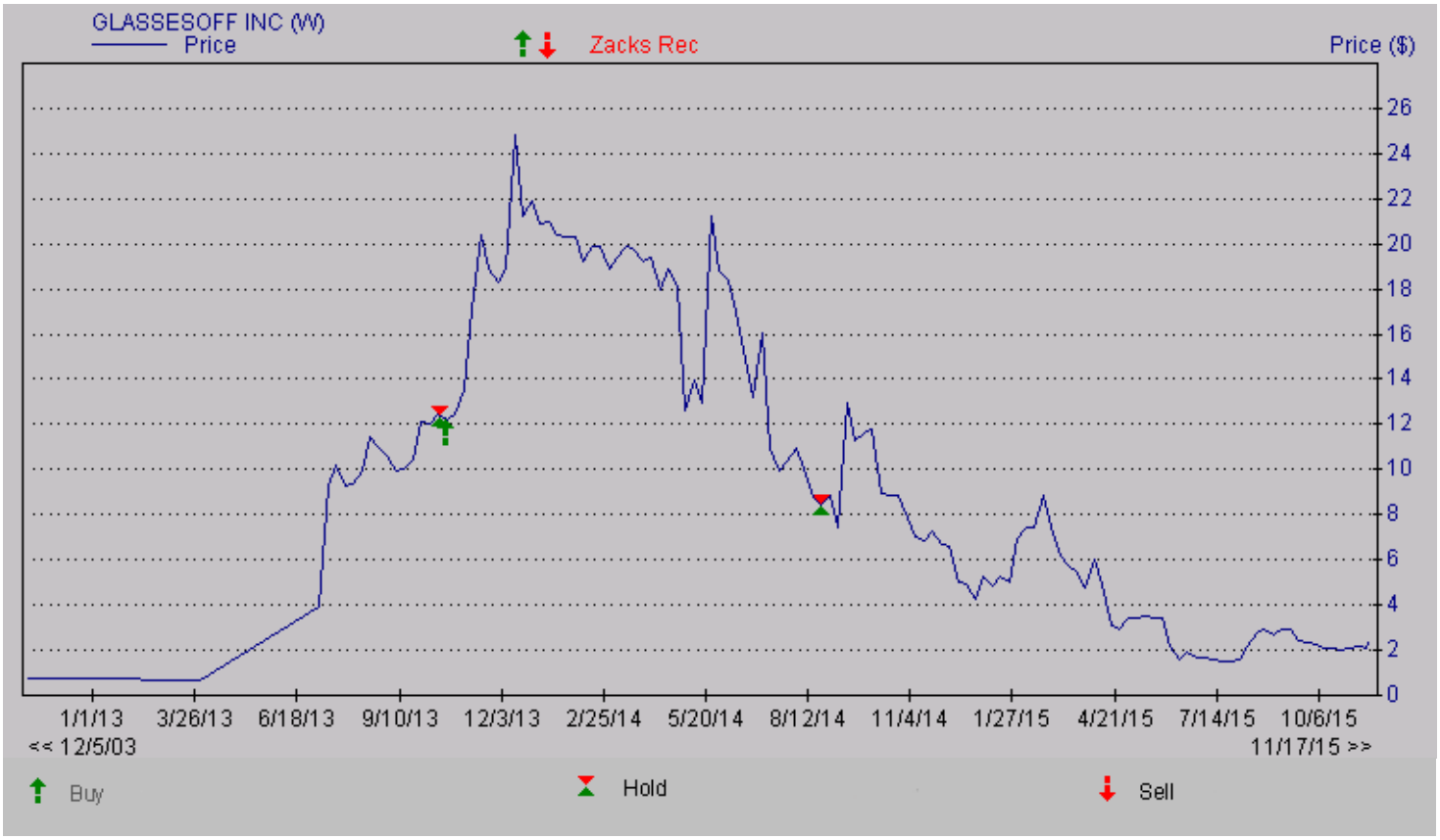
PROJECTED FINANCIALS

GlassesOff Inc. Income Statement

GlassesOff, Inc.	2014 A	Q1 A	Q2 A	Q3 A	Q4 E	2015 E	2016 E
Reading Glasses App	$0.11	$0.05	$0.06	$0.06	$0.06	$0.22	$0.46
YOY Growth	-	-	-	-	-	*$1.0*	*107%*
Sports App	$0	$0	$0	$0	$0	$0	$0.46
YOY Growth	-	-	-	-	-	-	-
Net Revenues	**$0.11**	**$0.05**	**$0.06**	**$0.06**	**$0.06**	**$0.22**	**$0.92**
Cost of Sales	$0.11	$0.06	$0.07	$0.07	$0.07	$0.26	$0.28
Research & Development	$1.82	$0.56	$0.57	$0.59	$0.65	$2.38	$2.50
Sales & Marketing	$1.11	$0.27	$0.16	$0.27	$0.30	$1.00	$2.00
General & Administrative	$2.55	$0.36	$0.26	$0.26	$0.30	$1.18	$1.50
Operating Income	($5.48)	($1.21)	($1.00)	($1.12)	($1.26)	($4.59)	($5.36)
Operating Margin	-					-	-
Interest & Other Income	$0.02	$0.01	$0.02	($0.01)	($0.01)	($0.01)	($0.01)
Pre-Tax Income	($5.46)	($1.21)	($0.98)	($1.13)	($1.26)	($4.60)	($5.37)
Taxes & Other	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($5.46)	($1.21)	($0.98)	($1.13)	($1.26)	($4.60)	($5.37)
Net Margin	-	-	-	-	-	-	-
Reported EPS	**($0.98)**	**($0.21)**	**($0.17)**	**($0.19)**	**($0.21)**	**($0.78)**	**($0.72)**
YOY Growth	*52.9%*					*-20.4%*	*-8.5%*
Basic Shares Outstanding	5.6	5.8	5.8	5.9	6.0	5.9	7.5

Source: Company Filing // Zacks Investment Research, Inc. Estimates

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