

Foresight Autonomous Holdings

Foresight boosts stake in Rail Vision

Increased stake in
Rail Vision

Software & comp services

Foresight Autonomous (FRSX) continues to increase its profile in the autonomous vision systems market. This month, it showcased its 'QuadSight' vision system containing two infrared and two vision cameras for autonomous and semi-autonomous vehicles at CES in Las Vegas, as well as on CNBC. The group also increased its stake in Rail Vision (RV), which develops advanced safety systems for railways, by 7.9% to 32.6%. This took place at a favourable price via the exercise of warrants valuing the company at \$28m vs our EV/revenue-based valuation of \$77m. The exercise was the result of a successful test with a leading European railway, which has commissioned a paid pilot programme and has notified Rail Vision that it is considering procuring its technology for its locomotive fleet. We see the RV stake increase as mildly value-accretive (c 2%) in dollar terms, but this gain has been offset by recent NIS strength vs the dollar, leading us to maintain our valuation of NIS4.99 per share.

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)	(12.6)	(0.12)	0.00	85.5	N/A
12/19e	14.6	(8.6)	(7.2)	(0.07)	0.00	6.9	N/A

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

Meet QuadSight, Eyes-On and now Eye-Net products

Following successful trials with major automakers in China in 2017, FRXS's launch of its new 'QuadSight' four-camera infrared/vision system for autonomous and semi-autonomous vehicles at the CES in Las Vegas has the potential to translate to new trials across more geographies. We expect the market reaction to live demonstrations of Foresight's new cell-phone-based accident alert system for drivers and pedestrians, 'Eye-Net', to give an indication of its sales potential. To date, we have not incorporated any forecast sales from this product into our model.

Foresight helping Rail Vision with its working capital

On 10 January, Foresight invested \$2.24m in warrant conversions in Rail Vision stock to increase its stake in the company from 24.5% to 32.6%. The funds are to be used by RV for working capital funds and we see the investment as value accretive (see next bullet point). We also note, however, that the increased investment in RV will likely trigger the expensing of equity accounted losses from RV in the 2018 accounts. This boosts our forecasts of FRXS's reported net loss by \$1.2m in 2018 but allows for a \$1.5m gain in 2019 as RV turns profitable.

Valuation: Materially unchanged at NIS4.99 per share

While the 8.1% increase in FRXS's RV stake represents a \$4.0m increase in group value, based on our valuation of RV of \$77m (down from \$79m after adjusting for 2017e cash outflows) the net impact on the NIS valuation is offset fully by the 2.7% gain in NIS against the US\$. This leaves our valuation at NIS4.99 per share.

21 January 2018

Price per share*	NIS3.32*
Price per ADR*	\$4.75*
Market cap	NIS365m
Market cap ADR	\$104m

*Priced at 18 January 2018 NIS3.43/US\$

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

Shares in issue 109.8m

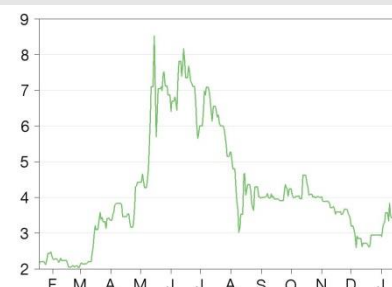
Free float 67.3%

Code FRSX

Primary exchange TASE

Secondary exchange NASDAQ

Share price performance



%	1m	3m	12m
Abs	23.9	(24.5)	57.8
Rel (local)	18.2	(28.7)	43.3
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 32.6% stake in rail ADAS specialist Rail Vision.

Next events

FY17 results	February 2018 (est)
Q118 results	May 2018 (est)

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[Edison profile page](#)

Change in forecast: Increase in Rail Vision stake

Higher reported losses from equity accounting, no cash impact

We expect the 10 January \$2.2m investment in Rail Vision shares to have a negative impact on reported equity accounted losses in 2018 by increasing the level of reported equity accounted losses and a positive impact in 2019, by enabling the reporting of equity accounted profits. None of this impacts the cash balances or cash flows of the group. With regards to cash levels, only the \$2.2m investment itself is expected to have an impact on the balance sheet, with a reduction in our forecast of net cash at end-2018 falling from \$10.4m to \$8.2m.

The changes to the reported equity accounted results of Rail Vision reflects the requirement under IAS 28 for the equity accounted losses to be shown in the P&L, only to the extent that the equity losses exceed the value of the investment in the associate net of accumulated equity losses.

Prior to this investment, we forecast the net value of the group's investment in Rail Vision after equity losses to be negative in 2018, preventing the inclusion of equity losses until an equivalent level of equity gains has also been generated.

The \$2.2m investment increases our estimate of the value of Foresight's net investment in Rail Vision from \$0.3m at end-2017 to c \$2.2m as of 10 January. As a result, it should be possible for Rail Vision to expense the full \$1.2m of our estimate of its equity accounted losses, (representing 36% of our forecast of RV's \$3.6m loss) in 2018 rather than capitalising them, resulting in a \$1.2m higher reported loss. Similarly, in 2019 FRSX should be able to show equity accounted gains in its P&L rather than using them to restore the balance of its net investment to a positive level.

Exhibit 1: Change in forecast

\$m	EPS* (\$)			PBT* (\$m)			EBITDA (\$m)		
	Old	New	% change	Old	New	% change	Old	New	% change
12/17e	(0.061)	(0.061)	(0.0)	(5.68)	(5.68)	0.0	(5.77)	(5.77)	0.0
12/18e	(0.106)	(0.115)	8.4	(11.45)	(12.63)	10.3	(11.50)	(11.50)	0.0
12/19e	(0.081)	(0.066)	(18.7)	(8.70)	(7.20)	(17.2)	(8.58)	(8.58)	0.0

Source: Foresight Autonomous historical data, Edison Investment Research. Note: *Normalised.

Exhibit 2: Financial summary

	\$m	2016	2017e	2018e	2019e
31 December		US GAAP	US GAAP	US GAAP	US GAAP
INCOME STATEMENT					
Revenue		0.0	0.0	1.1	14.6
Cost of Sales		N/A	0.0	(1.7)	(9.4)
Gross Profit		N/A	0.0	(0.6)	5.2
EBITDA		(3.3)	(5.8)	(11.5)	(8.6)
Normalised operating profit		(3.3)	(5.8)	(11.5)	(8.6)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0
Share-based payments		(0.4)	(2.5)	(0.9)	(1.1)
Reported operating profit		(3.8)	(8.3)	(12.4)	(9.7)
Net Interest		0.1	0.8	0.1	(0.1)
Joint ventures & associates (post tax)		(0.1)	(0.7)	(1.2)	1.5
Exceptionals		1.8	(16.1)	0.0	0.0
Profit before tax (norm)		(3.4)	(5.7)	(12.6)	(7.2)
Profit before tax (reported)		(1.9)	(24.3)	(13.5)	(8.3)
Reported tax		0.0	0.0	0.0	0.0
Profit after tax (norm)		(3.4)	(5.7)	(12.6)	(7.2)
Profit after tax (reported)		(1.9)	(24.3)	(13.5)	(8.3)
Minority interests		0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0
Net income (normalised)		(3.4)	(5.7)	(12.6)	(7.2)
Net income (reported)		(1.9)	(24.3)	(13.5)	(8.3)
Basic average number of shares outstanding (m)		67.3	93.4	109.5	109.6
EPS – basic normalised (\$)		(0.050)	(0.061)	(0.115)	(0.066)
EPS – diluted normalised (\$)		(0.050)	(0.061)	(0.115)	(0.066)
EPS – basic reported (\$)		(0.028)	(0.260)	(0.123)	(0.075)
Dividend (\$)		0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	N/A	N/A	1,175.6
Gross margin (%)		N/A	N/A	-51.8	35.6
EBITDA margin (%)		N/A	N/A	-1002.9	-58.6
Normalised operating margin (%)		N/A	N/A	-1004.9	-58.9
BALANCE SHEET					
Fixed assets		1.4	0.9	2.1	3.9
Intangible assets		0.0	0.0	0.0	0.0
Tangible assets		0.1	0.5	0.7	1.0
Investments & other		1.3	0.4	1.4	2.9
Current assets		3.9	22.5	8.6	3.5
Stocks		0.0	0.0	0.0	0.0
Debtors		0.0	0.4	0.4	2.4
Cash & cash equivalents		3.8	22.0	8.2	1.0
Other		0.1	0.1	0.1	0.1
Current liabilities		(0.5)	(0.5)	(0.5)	(4.3)
Creditors		(0.5)	(0.5)	(0.5)	(0.1)
Tax and social security		0.0	0.0	0.0	0.0
Short-term borrowings		0.0	0.0	0.0	(4.2)
Other		0.0	0.0	0.0	0.0
Long-term liabilities		(0.1)	(15.2)	(15.2)	(15.2)
Long-term borrowings		0.0	0.0	0.0	0.0
Warrant conversion and other long-term liabilities		(0.1)	(15.2)	(15.2)	(15.2)
Net assets		4.7	7.7	(4.9)	(12.1)
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		4.7	7.7	(4.9)	(12.1)
CASH FLOW					
Operating cash flow before WC and tax		(3.3)	(5.8)	(11.5)	(8.6)
Working capital		0.8	(0.4)	0.0	(2.4)
Exceptional & other		0.2	0.0	0.0	0.0
Tax		0.0	0.0	0.0	0.0
Net operating cash flow		(2.4)	(6.1)	(11.5)	(11.0)
Capex		(0.1)	(0.4)	(0.2)	(0.3)
Acquisitions/disposals		(1.3)	0.0	(2.2)	0.0
Net interest		0.0	0.8	0.1	(0.1)
Equity financing		6.3	23.8	0.0	0.0
Dividends		0.0	0.0	0.0	0.0
Other		1.2	0.0	0.0	0.0
Net cash flow		3.8	18.1	(13.9)	(11.4)
Opening net debt/(cash)		0.0	(3.8)	(22.0)	(8.2)
FX		0.0	0.2	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0
Closing net debt/(cash)		(3.8)	(22.0)	(8.2)	3.2

Source: Foresight Autonomous historical data, Edison Investment Research

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