



BrainChip Holdings Ltd (BRN)

The Age of Artificial Intelligence

Event:

- Update on activities, post results.

Investment Highlights:

- BRN has developed a revolutionary new Spiking Neuron Adaptive Processor (SNAP) technology** that has the ability to autonomously and rapidly learn and associate information just like the human brain. SNAP technology learns in seconds. This exemplifies a new level of machine learning that is expected to surpass deep learning, which requires days or weeks to train.
- Launch of Brainchip Studio, Hardware Accelerator (September 2017).** In Q3, BRN will release an integrated hardware & software solution for pattern recognition and facial classification. This lowers the total cost of ownership to the client. With this development, BRN can operate 512 channels on 4 servers whilst operating through a client's existing installed camera infrastructure.
- It is possible that BRN can generate US\$4-6m in revenues in FY18e, with an anticipated expense base of c.US\$7-8m, implying a cash burn of US\$2.5m for the year.** In recent months, employee costs have risen markedly, as the CEO strengthens the management and sales teams. It is possible that we may see cash flow breakeven in 2h18e. Today, BRN's cash balance is c.US\$4.5m, with anticipated spend of US\$3.6-4.0m heading into the end of December 2017.
- BRN are in discussions / trials with companies** in the sectors of casino operators, airports, schools, natural resource providers and traffic control providers, amongst others. The market potential for the application of BRN's product in civil surveillance and industrial visual inspection is significant, but will take time to capture. We would expect positive news flow to occur in-time.
- BRN has rolled out casino table security technology called Game Outcome at a Las Vegas casino group, the Mohegan Sun.** We understand BRN is in discussions, trials or deployment with c.+15 casinos. 2011 data estimates there are 2,600 casinos worldwide and the TAM is c.US\$250m.
- In the casino vertical a second product application is currently being rolled-out, called Game Statistics, which collects and interprets data from game tables.** The product enables venues to optimize labour costs and operational efficiencies, and ensure that they are providing appropriate "comps" to players. Comps are the incentives that casinos provide to players to encourage them to play more. We estimate this opportunity to be larger than the Game Outcome opportunity.

Recommendation:

- Artificial Intelligence is a buzz-word in Silicon Valley today and BRN has the potential to capitalize on this momentum.** Its new management team is working hard to commercialize its product and place BRN in its best possible light, whilst garnering exposure to industry professionals in the US/Global marketplace. In recent times, we have seen large companies such as Intel, Google, Apple, Microsoft, Facebook and IBM, among others invest in Artificial Intelligence. BRN has the potential to be a beneficiary of this trend.
- We maintain our Speculative Buy recommendation on BRN.** We believe chief catalysts for the share price include 1) the announcement of new customer contracts and 2) a licensing agreement with a large US or global company.

Rating	Speculative Buy
Previous	Speculative Buy
Price Target	n/a
Previous	n/a
Risk	Very High

Share price	\$0.165
ASX code	BRN
52 Week Low-High	\$0.10-0.36

Capital Structure	
Ordinary shares (M)	848.2
Market Cap (A\$M)	140
Net Cash/(Debt) (A\$M)	5.6
EV (A\$M)	134
Performance shares	58.0
Options	188.7
Diluted mkt cap (A\$M)	181
12mth Av Daily Volume ('000)	4,012

Board of Directors	
Mick Bolto	Non-Executive Chairman
Louis DiNardo	CEO
Peter Van Der Made	Founder & CTO
Emmanuel T Hernandez	Non-Executive Director
Adam Osseiran	Non-Executive Director
Julie H Stein	Non-Executive Director

Major Shareholders	
Peter van der Made	19.0%
Robert Mitro	13.1%
Anil Mankar	12.9%
Metals X	6.1%
Nerona	5.4%

Share Price Graph A\$



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 The analyst owns 100,001 shares in BRN

Foster Stockbroking was Sole Lead manager to BRN's placement in May 2017 to raise \$6.0m @ \$0.15 per share and in October 2016 to raise \$5.355m @ \$0.18 per share, for which it earned fees.