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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

On Track Innovations Ltd.

Speculative Buy

John Nobile
April 2, 2019

OTIV $0.64 — (NASDAQ)

	2017A	2018A	2019E	2020E
Revenues (millions)	$20.9	$21.9	$24.1	$26.7
Earnings (loss) per share*	$(0.06)	$(0.05)	$(0.04)	$(0.03)

52-Week range	$1.40 – $0.55	Fiscal year ends:	December
Common shares out as of 3/4/19	41.3 million	Revenue per share (TTM)	$0.53
Approximate float	37.2 million	Price/Sales (TTM)	1.2X
Market capitalization	$26 million	Price/Sales (FY2020)E	1.0X
Tangible book value/share	$0.28	Price/Earnings (TTM)	NMF
Price/tangible book value	2.3X	Price/Earnings (FY2020)E	NMF

**Continuing operations*

On Track Innovations Ltd., headquartered in Rosh Pina, Israel, is principally engaged in the design and development of cashless payment solutions.

Key investment considerations:

We are maintaining coverage of On Track Innovations Ltd. with a Speculative Buy rating but lowering our twelve-month price target to $1.70 per share (from $2.00) based primarily on our 2020 revenue projection.

Projections for the cashless payment industry suggest strong growth prospects for On Track. The company's expansion into new international markets (with certifications received in Russia and Canada in 2018) should help to drive sales growth through 2020.

In April 2019, On Track announced it received an order for more than 6,000 advanced payment systems for use in Russian rail ticketing systems. In February 2019, the company announced it partnered with Puma Energy in Namibia and Botswana, launching the iFUELGUARD B2B solution based on OTIVs AVI EasyFuelPlus solution.

In December 2018, the company completed the sale of its MediSmart business for $2.75 million. This divestiture strengthens OTIV's balance sheet, providing it with additional capital to advance its growth initiatives and remain focused on core operations.

The company reported (10-K released 3/25/19) 2018 revenues increased 4.8% to $21.9 million from $20.9 million. On Track reported a net loss from continuing operations of $1.9 million or $(0.05) per share versus a loss of $2.4 million or $(0.06) per share. We projected 2018 revenue of $25.9 million and a net loss from continuing operations of $941,000 or $(0.02) per share. 4Q18 sales were adversely impacted by US tariffs on China.

For 2019, we project a 10.2% increase in revenue to $24.1 million and a loss of $(0.04) per share. We previously projected revenue of $29.7 million and a loss of $(0.01) per share. The decrease in our projections is primarily due to the adverse impact on sales in 1Q19 stemming from US tariffs on China.

For 2020, we project a 10.8% increase in revenue to $26.7 million and a loss of $(0.03) per share. The increase in revenue should be driven by continued growth in the cashless, unattended, payment industry.

****Please view our disclosures on pages 14 - 16.***

Recommendation and Valuation

We are maintaining coverage of On Track Innovations Ltd. with a Speculative Buy rating but lowering our twelve-month price target to $1.70 per share (from $2.00) based primarily on our 2020 revenue projection.

Over the past 15 months shares of OTIV have traded at TTM P/S multiples ranging as high as 2.6X and as low as 1.1X. Shares of OTIV currently trade near its 15 month low at 1.2X sales. We believe OTIV’s low valuation is due to its weak 4Q18 sales performance and a lack of recognition of the company’s growth potential. The weak sales in 4Q18 were adversely impacted by tariffs implemented by the US on imports from China where the company manufactures its products. In an effort to eliminate the adverse effect manufacturing from China had on its sales, the company moved its manufacturing to the Philippines, which should be completed by the end of 1Q19. This move is likely to have an adverse effect on OTIV’s 1Q19 results. Sales growth should resume in 2Q19.

We believe investors should accord shares of OTIV a multiple of 2.6X (unchanged) on our FY20 sales per share projection of $0.65 based on a return to double digit revenue growth. Applying a multiple of 2.6X to our FY20 sales projection, we obtain a year ahead price target of approximately $1.70 per share implying shares could more than double over the next twelve months.

Significant Developments

Significant order for Advanced Payments Systems in Russia - In April 2019, On Track announced it received an order for more than 6,000 advanced payment systems for use in Russian rail ticketing systems. The systems are due to be delivered primarily in 2Q19.

This is an additional order from the Russian market following OTIV's delivery of 11,000 cashless payment systems to Russia in 2018. The company expects a higher rate of deliveries in 2019.

MIR approval was granted to OTIV in August 2018, enabling Russian consumers to use an OTIV cashless payment solution as a convenient way to make payments through unattended automated machines.

On Track Partners with Puma Energy - In February 2019, On Track announced it partnered with Puma Energy in Namibia and Botswana, launching the iFUELGUARD B2B solution based on OTIV's AVI EasyFuelPlus solution.

Puma Namibia embarked on a program to more than double its footprint of service stations offering this solution. Puma Energy completed the roll out of iFUELGUARD based on the EasyFuelPlus technology solution in Zambia. Implementations in the South African and Angolan markets are underway, with expectations of a commercial launch in 2Q19. Furthermore, five additional Southern African markets are targeted in the next phase of implementation in the near term.

OTI expects to generate increasing revenues from this solution as Puma's footprint grows and transaction volumes increase.

On Track Sells Non-Core Legacy MediSmart Division – In December 2018, the company completed the sale of its MediSmart business (an information management and claims submission system for the medical sector that can validate the identity of a patient using biometric technology) for $2.75 million. The results of MediSmart are presented in the statements of operations and in the statements of cash flows as discontinued operations.

This divestiture strengthens OTIV’s balance sheet, providing the company with additional capital to advance its growth initiatives and remain focused on its core business.

Business

On Track Innovations Ltd., headquartered in Rosh Pina, Israel, is principally engaged in the design and development of cashless payment solutions.

The company has historically derived a substantial majority of its revenues from the sale of cashless payment products (sample shown on the right), including both complete systems and original equipment manufacturer components. OTIV also derives a portion of its revenue from engineering services, customer services and technical support, and licensing and transaction fees.

Source: On Track Innovations

Operating Segments

The company mainly operates in two segments: Retail and Mass Transit Ticketing (76% of 2018 revenue), and Petroleum (24% of 2018 revenue). Applications of the company's payment systems can be seen in the illustration at right.

Source: On Track Innovations August 2018 Investor Presentation


OTI's payment system on vending machine


OTI's cashless fueling payment system


OTI's IoPT/Wearable Payment Solution

Retail and Mass Transit Ticketing

Retail – This segment consists of Self-Service (Unattended) Retail, Internet of Payment Things (IoPT) and Wearables.

Self-Service (Unattended) Retail - Near-field communication (NFC - a set of communication protocols that enable two electronic devices, one of which is usually a portable device such as a smartphone, to establish communication by bringing them within 4 cm (1.6 in) of each other) and contactless technologies are used globally to create cashless retail environments known as self-service or unattended. Self-service or unattended environments are a type of retail business where customers help themselves with respect to the products or services they wish to purchase, using NFC and contactless to accept the payment. Examples of business models that permit their customers an aspect of self-service include vending, laundromats, kiosks, gaming, banking, mass transit, electric vehicle charging points and self-service (self-checkout).

Internet of Payment Things (IoPT) and Wearables – Wearable fintech technologies (computer programs and other technology used to support or enable banking and financial services) have become a modern trend. It is common to find wearable technologies such as wristbands, watches or jewelry that are not only fashion garments but can also be linked to a smartphone and can measure a person's heartbeat and footsteps. OTIV's goal is to enable cashless payment (PayEnable) from NFC devices that will be cost-effective and require no expertise or special tooling from the merchant or consumer. PayEnabled devices will support contactless payment similar to pre-paid, debit and credit cards and will also be able to support mass transit ticketing, e-coupons, loyalty programs and healthcare applications.

Mass Transit Ticketing - The constantly growing need for mass transit ticketing systems and services, together with the migration to contactless smartcards for mass transit payments, has led to the development of unattended ticket sales and an attended mass transit ticketing system by the company.

The system is comprised of attended and unattended point-of-sales (POS), including ticket vending machines and terminals, and is fully managed by a back-office solution. The company provides system design, installation, management and on-going system maintenance services on a full end-to-end turn-key service basis.

Petroleum

OTIV's petroleum payment solutions enable customers to control and manage refueling operations, including automatic payments for less gas station downtime, complete remote transaction and fuel usage reporting, and allow for tracking of the odometer and/or engine operating hours.

Easily deployed and integrated with existing gas station infrastructure, the company's EasyFuel Plus® solution is a wireless, cashless, cardless, and paperless refueling tracking and payment solution, providing customers with maximum flexibility and security.

A partial listing of the company's customers, partners, and certifications can be seen in the chart at right.

Source: On Track Innovations August 2018 Investor Presentation

Industry

On Track operates in the cashless payment industry. Projections for this market suggest strong growth prospects for On Track.

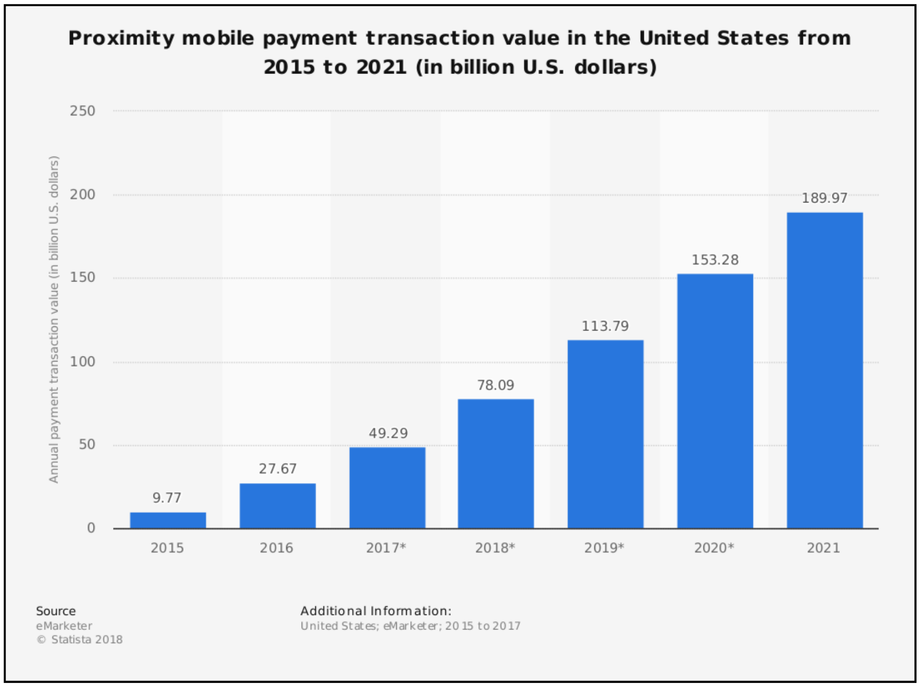
The credit card processing and money transferring industry derives business from consumers' use of electronic payments in lieu of cash. Electronic transactions have increasingly replaced cash and check purchases as a more efficient method of making payments for consumers and businesses. IBISWorld estimates that consumers will continue to bypass cash and perform transactions using credit cards or other electronic means over the five years to 2023, leading to higher transaction volumes for the credit card processing and money transferring industry.

Millions of contactless debit and credit cards are issued annually by leading financial institutions to various consumers, and merchants who are looking to install contactless payment readers that can be easily integrated into their existing unattended point of sale locations. The world's leading smartphone manufacturers are either including or are expected to include NFC support in their upcoming handset upgrades. Smartphone manufacturers have also introduced and are actively pushing the use of their own contactless payment solutions such as Apple Pay™, Android Pay™ and Samsung Pay™, all of which require a contactless reader to be available at the merchant countertop.

In September 2018, IBISWorld estimated that the future of retail will likely include many new and emerging payment methods, giving consumers and businesses a wide range of options for completing transactions. Continued advancements in smartphone technologies will likely continue to benefit the industry's operators that choose wisely to support the shift to electronic payments. It is important to note that today's smartphones enable individuals to purchase items on the go, pay bills online, and engage in online banking. For retailers, mobile technologies can provide services similar to debit or credit cards, enabling consumers to pay for goods or services using their mobile phones.

The latest available research from Allied Market Research projected the mobile payment market to grow at a compound annual growth rate (CAGR) of 33.8% from 2017 to 2023 to attain a market size of approximately $4.6 trillion by 2023. Mobile payment growth is expected to be driven by the increasing adoption of cashless payments. Mobile payments are referred to the transactions that are performed through mobile devices instead of paying through cash, checks, or physical credit cards. Mobile payments can be used as an alternative to credit cards as it is more convenient and secure. Traditional credit cards store consumers' information on the merchant's point-of-sale (POS) terminals, while mobile payments don't. When utilizing mobile pay, mobile devices serve as a security token and creates a random code for the transaction, which makes the transaction more secure.

Allied Market Research projects the global Near Field Communication (NFC) market to grow at a CAGR of 40.4% from 2015 to 2020 with North America dominating the global NFC market. Key applications of NFC technology include contactless payment, information sharing, user authentication and access control, monitoring healthcare systems and others. NFC technology offers faster transactions as compared to conventional cash, credit or debit card transactions. Within the NFC market, mobile/contactless applications dominated the market, owing to its outstanding benefits of secure payments. In the US, Statista projects proximity (NFC or other contactless technologies) transactions to grow at a CAGR of 40.1% from 2017 to 2021 generating approximately $190 billion in transactions by 2021 (see chart at right).



The cashless payment industry is shifting from the traditional attended business model to the unattended business model. In a USA Technologies' 2015 study of approximately 100,000 vending terminals, cashless unattended payments increased to 37% of total (cash and cashless) payments in 2015 from 32% in 2014, and were projected to grow to 40% in 2016. The study said that consumers were spending, on average, 32% more when they paid with a card versus cash.

A report by Visa (The Meteoric Rise of Unattended Retail) cited projections for the global cashless unattended retail market to grow at a compound annual growth rate (CAGR) of 16.7% to $275 billion by 2020 from $109 billion in 2014.

Competition

The company faces intense competition from developers of contact and contactless payments products that use similar or other technologies. Competitive factors include price, compatibility with the products of other manufacturers, and the ability to support new industry standards and introduce new reliable technologies. Many of OTIV's competitors have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than the company. As a result, they may be able to introduce new products, respond to customer requirements and adapt to evolving industry standards more quickly than OTIV.

In the retail market, OTIV's competitors include unattended payment solution and technology providers such as ID Tech, Nayax, Ingenico, Televend and VeriFone. In the petroleum market, the company competes with fueling and fleet management end-to-end solution vendors such as Orpak and Hectronic. Because of high barriers to entry, competition in this field is limited.

Strategy

On Track aims to maintain its status as a leading developer of NFC and cashless payment technologies. Key elements for achieving this goal include:

Expansion of global market presence – OTIV markets its products through a global network of subsidiaries in the US, Europe, Africa and its headquarters in Israel. The company aims to strengthen its presence in existing markets, penetrate new markets, provide local customer service and technical support, and adapt its products to local customers' specific needs. OTIV continues to expand its market presence via strategic distributors around the globe.

Increased focus on generating high-margin, recurring revenues – The company derives most of its revenue from one-time payments for its products and technologies. OTIV aims to generate additional recurring revenues by receiving service fees for ongoing customer service and transaction fees from customers.

Enhancing technological position – The company plans to continue investing in research and development. On Track's R&D activities are mainly focused on developing new innovative technologies related to the cashless payment solutions market, enhancing the functionality of its components, and expanding the range of its products to serve new markets.

Economic Outlook

In January 2019, the IMF lowered its global economic growth estimate to 3.5% for 2019 and 3.6% for 2020, down from its October 2018 estimate of 3.7% for both 2019 and 2020. The downward revision was due to a weakening global expansion. Weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook continue to weigh on the global economy.

The IMF kept its economic growth estimate for the US at 2.5% for 2019 and 1.8% for 2020. The softening in 2020 is due to the unwinding of fiscal stimulus.

The third estimate of US GDP growth (released on March 28, 2019) showed the US economy grew at an annual rate of 2.2% in 4Q18, down from 3.4% in 3Q18. The 4Q18 US GDP growth estimate reflects increases in consumer spending, business investment, exports, and inventory investment, partly offset by a decline in housing investment and government spending.

Projections

Our projections reflect continuing operations only.

The strong growth projected for the cashless payment industry that On Track operates in suggests continuing growth in sales for the company in 2019 and 2020. The company's expansion into new international markets (with certifications received in Russia and Canada in 2018) should help to drive sales through 2020.

A main driver of sales growth going forward is expected to be growing sales of the company's contactless readers in the ATM market. Sales of OTIV's contactless readers to this market have grown 5-fold in 2017 compared to 2016 and have grown an additional 60% in 2018 to 16,000 units from 10,000 units sold in 2017.

Recent FDA regulations regarding vending machine labeling requirements should bode well for sales of the company's new Trio IQ product that is slated to debut at the NAMA Show in Las Vegas in April 2019. The FDA proposed a January 1, 2020 compliance date for vending machine operators to disclose calorie information for food sold from vending machines. On Track's Trio IQ product is a telemetry (wireless data transmission) gateway and payment reader that should benefit from this regulation.

<u>*2019 Forecast*</u> **-** We project a 10.2% increase in revenue to $24.1 million and a net loss of $1.6 million or $(0.04) per share. We previously projected total revenue of $29.7 million and a net loss of $393,000 or $(0.01) per share. Our reduced forecast reflects the adverse impact on 1Q19 sales stemming from tariffs implemented by the US on imports from China where the company manufactures its products. We expect this adverse impact should be alleviated in 2Q19 due to the company relocating its manufacturing operations to the Philippines.

We project gross margin improvement to 51.4% from 51% in 2018 as higher margin licensing and transaction fee revenue makes up a larger portion of total revenue. We anticipate R&D expenses increasing 7.1% to $3.4 million as the company continues to invest in developing new cashless payment technologies and enhancing the functionality of its products. Selling and marketing and G&A expenses should increase 7.7% and 5.8% respectively, to $6.4 million and $4.2 million in order to support sales growth.

We project the operating loss narrowing to $1.6 million from $2 million in 2018. There should be minimal financial expenses as we project debt to be fully repaid in 1Q19. We project the company paying minimal taxes due to its large amount of tax loss carry forwards ($159 million as of December 31, 2018).

In 2019, we project $944,000 cash used in operations on a cash loss of $125,000 and an $819,000 increase in working capital due primarily to an increase in receivables and inventories, offset in part by an increase in payables. We project $650,000 cash used in investing activities due solely to capital expenditures. Cash used in financing activities of $265,000 should primarily come from the payoff of debt. We project a $1.9 million decrease in cash to $3 million (excludes restricted cash) at the end of 2019.

<u>*2020 Forecast*</u> **-** We project a 10.8% increase in revenue to $26.7 million and a net loss of $1.1 million or $(0.03) per share. The increase in revenue should be driven by continued growth in the cashless, unattended, payment industry.

We project gross margin improvement to 51.9% from 51.4% in 2019 as higher margin licensing and transaction fee revenue makes up a larger portion of total revenue. We anticipate R&D expenses increasing 5.9% to $3.6 million as the company continues to invest in developing new cashless payment technologies and enhancing the functionality of its products. Selling and marketing and G&A expenses should increase 8.4% and 4.8% respectively, to $6.9 million and $4.4 million in order to support sales growth.

We project the operating loss narrowing to $1.1 million from our projected $1.6 million loss in 2018. There should be no financial expenses as debt will be fully repaid in 2019. We project the company paying minimal taxes due to its large amount of tax loss carry forwards.

In 2020, we project $193,000 cash used in operations on cash earnings of $339,000 and an $531,000 increase in working capital due primarily to an increase in receivables and inventories, offset in part by an increase in payables. We project $650,000 cash used in investing activities due solely to capital expenditures. Cash provided by financing activities of $34,000 should primarily come from the exercise of options and warrants. We project an $809,000 decrease in cash to $2.2 million (excludes restricted cash) at the end of 2020.

2018 and 4Q Financial Results

<u>*FY 2018*</u> **-** Total revenues increased 4.8% to $21.9 million from $20.9 million. On Track reported a net loss from continuing operations of $1.9 million or $(0.05) per share versus a loss of $2.4 million or $(0.06) per share. We projected 2018 revenue of $25.9 million and a net loss from continuing operations of $941,000 or $(0.02) per share.

Product sales and services increased 2.9% to $16.7 million. Licensing and transaction fees increased 11.5% to $5.2 million. The increase in product sales reflects growth in retail and mass transit ticketing segment sales in

Europe, partially offset by a decrease in sales of readers to the US. The increase in licensing and transaction fees was primarily due to On Track's otiMetry solution in Europe and Japan.

Gross profit increased 7.2% to $11.2 million from $10.4 million while gross margins increased to 51% from 49.9%. The increase in gross margins was primarily due to a favorable revenue mix.

Research and development costs remained relatively flat at $3.2 million. Selling and marketing expenses increased 5.5% to $5.9 million from $5.6 million due primarily to increased headcount. General and administrative expenses increased 9.7% to $4 million from $3.6 million due primarily to increased compensation costs.

Financial expenses decreased to $228,000 from $341,000. On Track received a $301,000 tax benefit in 2018 versus a benefit of $138,000 in 2017.

4Q18 – Total revenues decreased 28.4% to $4.5 million from $6.3 million. On Track reported a net loss from continuing operations of $862,000 or $(0.02) per share versus a loss of $627,000 or $(0.02) per share. 4Q18 sales were adversely impacted by US tariffs on China.

Product sales and services decreased 34.6% to $3.4 million. Licensing and transaction fees remained relatively flat at $1.2 million. Revenues were adversely impacted by lower orders from the Asia-Pacific region as well as tariffs implemented by the US on imports from China where the company manufactures its products.

Gross profit decreased 26.2% to $2.2 million from $2.9 million while gross margins increased to 47.9% from 46.4%.

Research and development costs decreased by 10.9% to $782,000 from $878,000. Selling and marketing expenses decreased 15.5% to $1.2 million from $1.5 million. General and administrative expenses decreased 11.3% to $978,000 from $1.1 million.

Financial expenses decreased to $98,000 from $104,000. On Track received a $34,000 tax benefit versus a benefit of $47,000 in 4Q17.

Liquidity – As of December 31, 2018, On Track had $4.8 million cash, a current ratio of 1.9X, $299,000 of total debt, and over 55% of assets are financed by equity.

The company's debt has maturity dates ranging from 2019 through 2020 and bears interest at a weighted average interest rate of 4.66% annually.

At December 31, 2018, the company had a cash loss of $821,000 and a $1.4 million increase in working capital that resulted in $2.2 million cash used in continuing operations. Cash provided by investing activities of $815,000 consisted primarily of a positive change in short-term investments offset in part by capital expenditures. Cash used in financing activities of $4.6 million consisted primarily of the repayment of debt. Cash decreased by $2.7 million to $4.8 million (excludes $278,000 of restricted cash) as of December 31, 2018.

Risks

In our view, these are the principal risks underlying the stock.

History of losses – The company has incurred losses in each year since it commenced operations in 1990 and may continue to incur losses as it invests in the expansion of its global sales and marketing network, reduces product prices in return for future transaction fees, and enhances its research and development capabilities.

Dependence on a small number of large customers – OTIV's customer base is concentrated among a limited number of large customers. In 2018, 2017 and 2016, the company's customers related to mass transit in Poland provided 15%, 16% and 17%, respectively, of total revenues. Another customer in North America accounted for 9%, 12% and 9% of total revenues for 2018, 2017 and 2016, respectively. If the company were to lose any one of its major customers, the company's financial condition and results of operations would be adversely affected.

Competition – The company faces intense competition from developers of contact and contactless payments products that use similar or other technologies. Competitive factors include price, compatibility with the products of other manufacturers, and the ability to support new industry standards and introduce new reliable technologies. Many of OTIV's competitors have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than the company. As a result, they may be able to introduce new products, respond to customer requirements and adapt to evolving industry standards more quickly than OTIV.

Technological Obsolescence - If the company fails to develop new products or adapt its existing products for use in new markets, revenue growth may be impeded and OTIV could incur significant losses.

Long development cycles - Typically, the projects in which the company is involved are complex and require that OTIV customize products to fit its customers' needs and specifications. The company's average development cycle is typically between six and 18 months from initial contact with a potential customer until it delivers to the customer and recognizes significant revenues. As a result, OTIV may expend financial, management and other resources to develop customer relationships before it recognizes revenue, if any.

Intellectual property (IP) protection – The company's success and ability to compete depends considerably on using its IP and proprietary rights to protect its technology and products. OTIV relies on a combination of patent, trademark, design, copyright, and trade secret laws, confidentiality agreements and other contractual relationships with its employees, customers, affiliates, distributors, suppliers and others. If the company is unable to protect or assert its intellectual property rights, its business and results of operations may be adversely affected.

Regulations - If OTIV fails to adhere to regulations and security standards imposed by credit card networks, or if the company's products are not certified or otherwise fail to comply with such regulations and security standards (such as payment card industry standards), OTIV's results of operations could be adversely affected.

International markets, currency fluctuations – The company derives revenue from different geographical areas. Regional sales may continue to fluctuate widely and may be adversely impacted by future political or economic instability in foreign countries or regions.

OTIV generates a significant portion of its revenue in US dollars but incurs some expenses in other currencies. The company is therefore exposed to foreign currency exchange rate fluctuations which may adversely affect its results of operations.

Economic outlook – OTIV's operations and performance depends on worldwide economic conditions and their impact on levels of business and public spending. Fluctuations or downturns in global or regional economies may adversely affect the budgeting and purchasing behavior of the company's customers which could adversely affect product sales.

Risk of conducting business in Israel – OTIV is incorporated under the laws of the State of Israel and its principal offices and research and development facilities are located in Israel. Accordingly, security, political and economic conditions in the Middle East in general, and in Israel in particular, may adversely affect the company's business.

Liquidity risk - Shares of OTIV have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 37.2 million shares in the float and the average daily volume is approximately 84,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2017A	2018A	2019E	2020E
Cash and cash equivalents	6,742	4,827	2,968	2,160
Short-term investments (includes restricted cash)	3,331	1,078	1,078	1,078
Trade receivables	5,827	4,530	4,990	5,528
Other receivables and prepaid expenses	3,325	2,060	2,060	2,060
Inventories	3,009	3,527	3,856	4,232
Total current assets	22,234	16,022	14,952	15,059
Restricted deposit for employee benefits	498	451	451	451
Severance pay deposits	405	375	375	375
Property, plant and equipment	5,859	5,033	5,001	4,685
Intangible assets	336	241	146	51
Total assets	**29,332**	**22,122**	**20,925**	**20,621**
Current debt	4,181	260	-	-
Trade payables	7,171	4,712	5,151	5,654
Other current liabilites	3,276	3,622	3,622	3,622
Total current liabilities	14,628	8,594	8,773	9,276
Long-term debt	814	39	-	-
Accrued severance pay	939	853	853	853
Deferred tax liability	500	445	445	445
Total liabilities	**16,881**	**9,931**	**10,071**	**10,574**
Total stockholders' equity	**12,451**	**12,191**	**10,854**	**10,046**
Total liabilities & stockholders' equity	**29,332**	**22,122**	**20,925**	**20,621**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2016A*	2017A*	2018A	2019E	2020E
Sales	13,357	16,252	16,725	18,350	20,200
Licensing and transaction fees	5,395	4,621	5,153	5,750	6,500
Total revenue	18,752	20,873	21,878	24,100	26,700
Cost of sales	9,276	10,456	10,710	11,708	12,852
Cost of licensing	250	-	-	-	-
Total cost of revenue	9,526	10,456	10,710	11,708	12,852
Gross profit	9,226	10,417	11,168	12,392	13,848
Research and development	2,768	3,263	3,175	3,400	3,600
Selling and marketing	5,516	5,633	5,940	6,400	6,940
General and administrative	3,482	3,620	3,971	4,200	4,400
Other	239	83	43	-	-
Operating income (loss)	(2,779)	(2,182)	(1,961)	(1,608)	(1,092)
Financial expenses	(396)	(341)	(228)	(13)	-
Income (loss) cont. ops. before taxes	(3,175)	(2,523)	(2,189)	(1,621)	(1,092)
Income tax benefit (expense)	131	138	301	-	-
Net income (loss) cont. ops.	(3,044)	(2,385)	(1,888)	(1,621)	(1,092)
Net income (loss) discont. ops.	2,184	1,787	1,625	-	-
Net income (loss)	(860)	(598)	(263)	(1,621)	(1,092)
EPS cont. ops.	(0.07)	(0.06)	(0.05)	(0.04)	(0.03)
EPS discont. ops.	0.05	0.05	0.04	-	-
EPS	(0.02)	(0.01)	(0.01)	(0.04)	(0.03)
Shares Outstanding	40,915	41,110	41,269	41,300	41,300
Margin Analysis					
Gross margin (sales)	30.6%	35.7%	36.0%	36.2%	36.4%
Gross margin (licensing)	95.4%	100.0%	100.0%	100.0%	100.0%
Gross margin (total)	49.2%	49.9%	51.0%	51.4%	51.9%
Research and development	14.8%	15.6%	14.5%	14.1%	13.5%
Selling and marketing	29.4%	27.0%	27.2%	26.6%	26.0%
General and administrative	18.6%	17.3%	18.2%	17.4%	16.5%
Operating margin	(14.8)%	(10.5)%	(9.0)%	(6.7)%	(4.1)%
Year / Year Growth					
Sales revenue		21.7%	2.9%	9.7%	10.1%
Licensing revenue		(14.3)%	11.5%	11.6%	13.0%
Total revenue		11.3%	4.8%	10.2%	10.8%

*Reclassified to reflect Medismart as discontinued operation
Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2019E - 2020E
(in thousands $)

	3/19E	6/19E	9/19E	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Sales	3,650	4,700	4,500	5,500	18,350	4,500	5,000	4,700	6,000	20,200
Licensing and transaction fees	1,250	1,450	1,500	1,550	5,750	1,550	1,600	1,650	1,700	6,500
Total revenue	4,900	6,150	6,000	7,050	24,100	6,050	6,600	6,350	7,700	26,700
Cost of sales	2,336	2,999	2,876	3,498	11,708	2,876	3,180	2,999	3,798	12,852
Cost of licensing	-	-	-	-	-	-	-	-	-	-
Total cost of revenue	2,336	2,999	2,876	3,498	11,708	2,876	3,180	2,999	3,798	12,852
Gross profit	2,564	3,151	3,125	3,552	12,392	3,175	3,420	3,351	3,902	13,848
Research and development	850	850	850	850	3,400	900	900	900	900	3,600
Selling and marketing	1,310	1,630	1,590	1,870	6,400	1,570	1,720	1,650	2,000	6,940
General and administrative	1,050	1,050	1,050	1,050	4,200	1,100	1,100	1,100	1,100	4,400
Other	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	(646)	(379)	(366)	(218)	(1,608)	(396)	(300)	(299)	(98)	(1,092)
Financial expenses	(13)	-	-	-	(13)	-	-	-	-	-
Income (loss) cont. ops. before taxes	(659)	(379)	(366)	(218)	(1,621)	(396)	(300)	(299)	(98)	(1,092)
Income tax benefit (expense)	-	-	-	-	-	-	-	-	-	-
Net income (loss) cont. ops.	(659)	(379)	(366)	(218)	(1,621)	(396)	(300)	(299)	(98)	(1,092)
Net income (loss) discont. ops.	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(659)	(379)	(366)	(218)	(1,621)	(396)	(300)	(299)	(98)	(1,092)
EPS cont. ops.	(0.02)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.00)	(0.03)
EPS discont. ops.	-	-	-	-	-	-	-	-	-	-
EPS	(0.02)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.00)	(0.03)
Shares Outstanding	41,300	41,300	41,300	41,300	41,300	41,300	41,300	41,300	41,300	41,300
Margin Analysis										
Gross margin (sales)	36.0%	36.2%	36.1%	36.4%	36.2%	36.1%	36.4%	36.2%	36.7%	36.4%
Gross margin (licensing)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin (total)	52.3%	51.2%	52.1%	50.4%	51.4%	52.5%	51.8%	52.8%	50.7%	51.9%
Research and development	17.3%	13.8%	14.2%	12.1%	14.1%	14.9%	13.6%	14.2%	11.7%	13.5%
Selling and marketing	26.7%	26.5%	26.5%	26.5%	26.6%	26.0%	26.1%	26.0%	26.0%	26.0%
General and administrative	21.4%	17.1%	17.5%	14.9%	17.4%	18.2%	16.7%	17.3%	14.3%	16.5%
Operating margin	(13.2)%	(6.2)%	(6.1)%	(3.1)%	(6.7)%	(6.5)%	(4.5)%	(4.7)%	(1.3)%	(4.1)%
Year / Year Growth										
Sales revenue					9.7%	23.3%	6.4%	4.4%	9.1%	10.1%
Licensing revenue					11.6%	24.0%	10.3%	10.0%	9.7%	13.0%
Total revenue					10.2%	23.5%	7.3%	5.8%	9.2%	10.8%

*Reclassified to reflect Medismart as discontinued operation
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

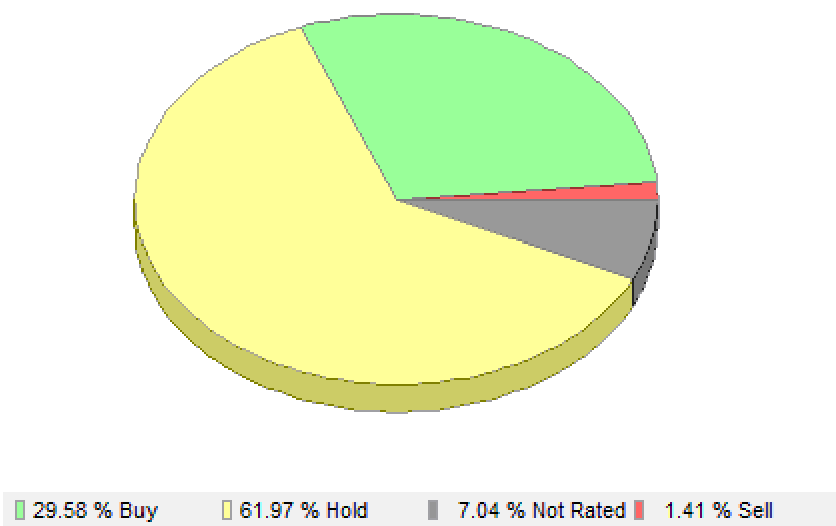
	2016A*	2017A*	2018A	2019E	2020E
Net income (loss) continuing ops.	(3,044)	(2,385)	(1,888)	(1,621)	(1,092)
Stock-based compensation	239	254	234	250	250
Loss (gain) on sale of property and equipment	83	52	(37)	-	-
Accrued interest and linkage differences	56	(6)	19	-	-
Depreciation and amortization	1,172	1,172	1,328	1,246	1,181
Deferred tax benefits	(155)	(165)	(477)	-	-
Cash earnings (loss)	(1,649)	(1,078)	(821)	(125)	339
Changes in assets and liabilities					
Accrued severance pay	(183)	45	(57)	-	-
Trade receivables	(3,224)	(124)	1,118	(669)	(658)
Other receivables and prepaid expenses	349	(838)	350	(260)	-
Inventories	(106)	110	(573)	(329)	(377)
Trade payables	1,631	(644)	(2,089)	439	503
Other current liabilites	288	(597)	(110)	-	-
(Increase) decrease in working capital	(1,245)	(2,048)	(1,361)	(819)	(531)
Net cash provided by (used in) continuing operations	**(2,894)**	**(3,126)**	**(2,182)**	**(944)**	**(193)**
Net cash provided by (used in) discontinued ops.	**2,761**	**2,311**	**3,500**	**-**	**-**
Purchase of property and equipment	(311)	(293)	(636)	(650)	(650)
Proceeds from sale of property and equipment	1,779	17	68	-	-
Change in short-term investments	(822)	1,773	1,495	-	-
Investment in capitalized certification costs	(188)	(239)	(120)	-	-
Investment in restricted deposit for employee benefits	(44)	-	-	-	-
Proceeds from restricted deposit for employee benefits	142	44	8	-	-
Net cash provided by (used in) investing	**556**	**1,302**	**815**	**(650)**	**(650)**
Increase (decrease) in short-term debt	1,018	(335)	(3,554)	(260)	-
Proceeds from long-term debt	27	-	-	-	-
Repayment of long-term debt	(1,581)	(632)	(1,064)	(39)	-
Proceeds from exercise of options and warrants	177	92	34	34	34
Net cash provided by (used in) financing	**(359)**	**(875)**	**(4,584)**	**(265)**	**34**
Effect of currency exchange rates	(268)	687	(243)	-	-
Net change in cash	**(204)**	**299**	**(2,694)**	**(1,859)**	**(809)**
Cash - beginning of period	**5,450**	**5,952**	**6,742**	**4,827**	**2,968**
Cash - end of period	**5,952**	**6,742**	**4,827**	**2,968**	**2,160**
Restricted cash	1,548	1,057	278	278	278
Cash and restricted cash end of period	7,500	7,799	5,105	3,246	2,438

*Reclassified to reflect Medismart as discontinued operation

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**8**
Hold		
Sell		
Not Rated	**2**	**50**

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

USA Technologies (NASDAQ: USAT)
VeriFone Systems (NYSE: PAY)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.