

Research Report – Update

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

On Track Innovations Ltd.

Speculative Buy

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OTIV \$0.83 — (NASDAQ)

	<u>2016A</u>	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Revenues (millions)	\$20.6	\$22.4	\$25.9	\$29.7
Earnings (loss) per share*	\$(0.06)	\$(0.04)	\$(0.02)	\$(0.01)

52-Week range	\$2.94 – \$0.67	Fiscal year ends:	December
Common shares out as of 10/30/18	41.3 million	Revenue per share (TTM)	\$0.61
Approximate float	41.1 million	Price/Sales (TTM)	1.4X
Market capitalization	\$34 million	Price/Sales (FY2019)E	1.2X
Tangible book value/share	\$0.28	Price/Earnings (TTM)	NMF
Price/tangible book value	3.0X	Price/Earnings (FY2019)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 our Speculative Buy rating and raising our twelve-month price target to \$2.00 per share from \$1.50 due primarily to our increased 2019 revenue projection.

Projections for the cashless payment industry suggest strong growth prospects for On Track. The cashless payment industry is shifting from the traditional attended business model to the unattended business model (the majority of OTIV's business). A report by Visa cited projections for the global cashless unattended retail market to grow annually by 16.7% to reach \$275 billion by 2020 from \$109 billion in 2014.

Within the unattended market, near-field communication (NFC) technologies (such that the company offers) are projected to show strong growth through our forecast horizon. Allied Market Research projects the global NFC market to grow at a CAGR of 40.4% from 2015 to 2020 with North America dominating the global NFC market.

The company reported (10-Q released 11/14/18) 3Q18 total revenues increased 38.6% to \$6.5 million from \$4.7 million. On Track reported a net loss from continuing operations of \$158,000 or breakeven per share versus a loss of \$573,000 or \$(0.01) per share. We projected 3Q18 revenue of \$5.2 million and a net loss from continuing operations of \$116,000 or breakeven per share.

For 2018, we project a 15.7% increase in total revenue to \$25.9 million and a loss from continuing operations of \$(0.02) per share. We previously projected total revenue of \$24.6 million and a loss of \$(0.03) per share. The decrease in our projections reflects 3Q18 results.

For 2019, we project a 14.7% increase in revenue to \$29.7 million and a net loss of \$(0.01) per share. We previously projected total revenue of \$27.2 million and a net loss of \$(0.02) per share. The increase in our revenue forecast is primarily due to expansion into new international markets (with certifications recently received in Russia and Canada) and 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 and raising our twelve-month price target to \$2.00 per share (from \$1.50) based primarily on our increased 2019 revenue projection.

Over the past twelve months shares of OTIV have traded at TTM P/S multiples ranging as high as 2.6X and as low as 1.4X, where they currently trade. We believe OTIV's low valuation is due to a lack of recognition of the company's growth potential.

We believe investors should accord shares of OTIV a multiple of 2.6X on our FY19 sales per share projection of \$0.72 (up from \$0.66 previously) based on continuing double digit revenue growth. Applying a multiple of 2.6X to our FY19 sales projection, we obtain a year ahead price target of approximately \$2.00 per share implying shares could more than double over the next twelve months.

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.



In September 2016, the company completed the sale of certain assets and intellectual property (IP) related to its parking business. In December 2013, OTIV completed the sale of certain assets, certain subsidiaries and IP directly related to its SmartID division. The results from such operations and the cash flows for the reporting periods are presented in the statements of operations and in the statements of cash flows as discontinued operations.

Operating Segments

The company mainly operates in two segments: Retail and Mass Transit Ticketing (69% of 2017 revenue), and Petroleum (23% of 2017 revenue). Products for the medical industry and other secure smart card solutions are classified as "other" (8% of 2017 revenue) in operating segments. Applications of the company's payment systems can be seen in the illustration at right.



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.

Payment & OEM Customers and Partners	Petroleum Customers and Partners	Certifications

Source: On Track Innovations August 2018 Investor Presentation

Medical Sector

The company's MediSmart® solution is an information management and claims submission system for the medical sector that can validate the identity of a patient by using biometric technology, offering faster treatment of patients, access to medical information, and a reduction in medical errors, as well as adverse events and fraudulent transactions.

OTIV's medical solution enables digitized secure access at the point of service through the use of biometrics and a smartcard that interfaces with the health care provider to securely identify the member and capture and transmit electronic claims for online processing, reporting, visibility and analytics for the member, health care provider, and medical administrator.

Industry

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

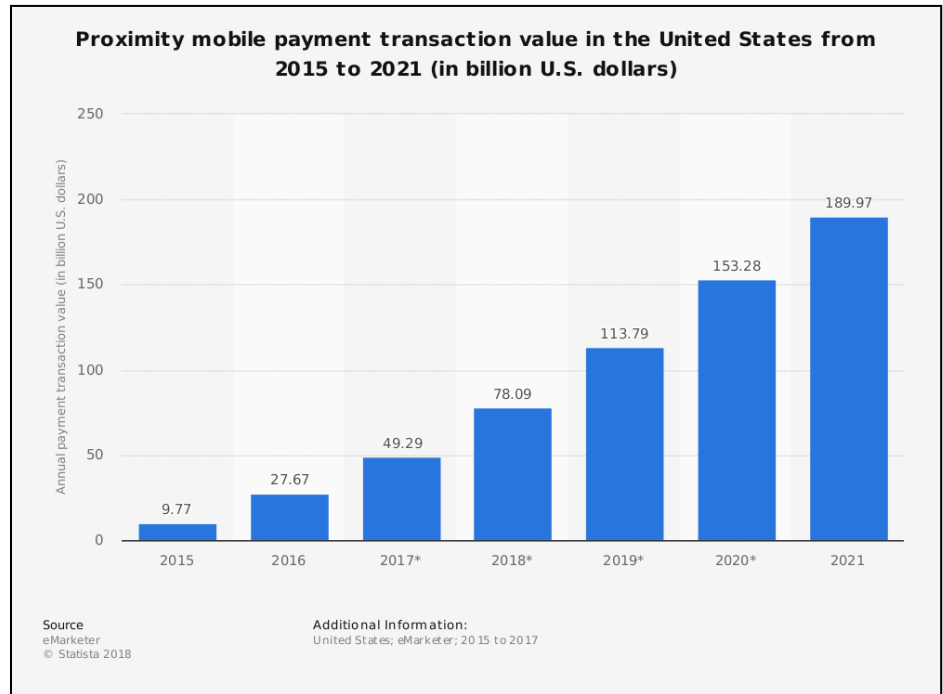
The credit card processing and money transferring industry derives business from consumers' use of electronic payments in lieu of cash. Electronic transactions have increasingly replaced cash and check purchases as a more efficient method of making payments for consumers and businesses. IBISWorld estimates 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.

In February 2018, 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 October 2018, the IMF lowered its global economic growth estimate to 3.7% for both 2018 and 2019, down 0.2% for both periods from its July 2018 estimate. The downward revision was due to rising trade barriers and a reversal of capital flows to emerging economies.

The IMF kept its economic growth estimate for the US at 2.9% for 2018 but lowered its 2019 estimate to 2.5%, down 0.2% from its July 2018 estimate. While the IMF believes that economic momentum is still strong as fiscal stimulus continues to rise, the downward revision for 2019 reflects \$200 billion in tariffs on US imports from China.

The advance estimate of US GDP growth (released on October 26, 2018) showed the US economy grew at an annual rate of 3.5% in 3Q18, down from 4.2% in 2Q18. The 3Q18 US GDP growth estimate primarily reflects increases in consumer spending, inventory investment, government spending, and business investment.

Projections

The strong growth projected for the cashless payment industry that On Track operates in suggests continuing growth in sales for the company in 2018 and 2019. Our projections reflect continuing operations only.

2018 Forecast - We project a 15.7% increase in total revenue to \$25.9 million and a loss from continuing operations of \$941,000 or \$(0.02) per share. We previously projected total revenue of \$24.6 million and a loss of \$1.1 million or \$(0.03) per share. The decrease in our projections reflects 3Q18 results.

We project gross margins of 52%, in line with year-to-date margins. We anticipate R&D expenses remaining relatively flat at \$3.3 million. We anticipate selling and marketing expenses increasing 16.3% to \$6.6 million and G&A expenses increasing 18.4% to \$4.3 million due to the hiring of professionals to support revenue growth.

We project the operating loss narrowing to \$719,000 from \$1.3 million in 2017. Financial expenses should decline to \$131,000 from \$341,000 due to lower average debt levels. We project the company paying minimal taxes due to its large amount of tax loss carry forwards (\$193 million as of December 31, 2017).

In 2018, we project \$78,000 cash provided by operations on cash earnings of \$530,000 and a \$452,000 increase in working capital due primarily to an increase in receivables. We project \$513,000 cash provided by investing activities due primarily to a \$1.2 million decrease in short-term investments offset in part by \$650,000 of capital expenditures. Cash used in financing activities of \$4.9 million should result from paying down debt. We project a \$4.6 million decrease in cash to \$2.9 million (excludes restricted cash) at the end of 2018.

2019 Forecast - We project a 14.7% increase in revenue to \$29.7 million and a net loss of \$393,000 or \$(0.01) per share. We previously projected total revenue of \$27.2 million and a net loss of \$677,000 or \$(0.02) per share. The increase in our projections is primarily due to expansion into new international markets (with certifications recently received in Russia and Canada) and continued growth in the cashless, unattended, payment industry.

We project gross margins of 52%, in line with 2018 margins. We anticipate R&D expenses increasing 8.4% 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 13% and 11.6% respectively, to \$7.4 million and \$4.8 million in order to support the growth in business.

We project the operating loss narrowing to \$360,000 from \$719,000 in 2018. There should be no financial expenses as we project debt to be fully repaid in 2018. We project the company paying minimal taxes due to its large amount of tax loss carry forwards.

In 2019, we project \$536,000 cash provided by operations on cash earnings of \$1.1 million and a \$541,000 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 \$50,000 should primarily come from the exercise of options and warrants. We project a \$64,000 decrease in cash to \$2.8 million (excludes restricted cash) at the end of 2019.

3Q and Nine-month Financial Results

3Q18 – Total revenues increased 38.6% to \$6.5 million from \$4.7 million. On Track reported a net loss from continuing operations of \$158,000 or breakeven per share versus a loss of \$573,000 or \$(0.01) per share. We projected 3Q18 revenue of \$5.2 million and a net loss from continuing operations of \$116,000 or breakeven per share.

Product sales and services increased 45.7% to \$5 million. Licensing and transaction fees increased 18.6% to \$1.5 million. The increase in product sales and services was primarily due to higher retail and mass transit ticketing segment sales in Japan and Europe and an increase in petroleum products in the US. Partially offsetting the increase in sales was a decrease in sales of reader products in the US. The increase in licensing and transaction fees was primarily due to On Track's otiMetry solution (all-inclusive cashless payment and telemetry management system for smart vending machines) in Europe and Japan and an increase in Mass Transit Ticketing sales in Europe.

Gross profit increased 38.1% to \$3.4 million from \$2.5 million while gross margins decreased to 52.9% from 53.1%. The decrease in gross margins was primarily due to a higher percentage of sales generated from products versus higher margin licensing and transaction fees.

Research and development costs decreased by 5.6% to \$777,000 from \$823,000. Selling and marketing expenses increased 19.5% to \$1.6 million from \$1.3 million. General and administrative expenses increased 44.9% to \$1.1 million from \$758,000 due to increased compensation.

Financial expenses decreased to \$2,000 from \$126,000 due to a reduction in debt levels. On Track paid \$111,000 in taxes versus paying \$12,000 in taxes in 3Q17.

Nine-months 2018 - Total revenues increased 18.2% to \$18.5 million from \$15.6 million. On Track reported a net loss from continuing operations of \$683,000 or \$(0.02) per share versus a loss of \$1.3 million or \$(0.03) per share.

On Track Innovations Ltd.

Product sales and services increased 19.3% to \$14.2 million. Licensing and transaction fees increased 15.1% to \$4.3 million. The revenue increase reflects growth in retail and mass transit ticketing segment sales in Japan, Europe, and the US and an increase in petroleum products in the US. Partially offsetting the increase in sales was a decrease in petroleum product sales in Africa. The increase in licensing and transaction fees was primarily due to On Track's otiMetry solution in Europe and Japan and an increase in Mass Transit Ticketing sales in Europe.

Gross profit increased 18.9% to \$9.7 million from \$8.2 million while gross margins increased to 52.5% from 52.2%.

Research and development costs remained relatively flat at \$2.4 million. Selling and marketing expenses increased 12.8% to \$4.7 million. General and administrative expenses increased 20.3% to \$3.1 million from \$2.6 million.

Financial expenses decreased to \$129,000 from \$236,000. On Track paid \$73,000 in taxes versus paying \$68,000 in taxes in the first nine months of 2017.

Liquidity – As of September 30, 2018, On Track had \$4.5 million cash, a current ratio of 1.7X, \$512,000 of total debt, and over 52% of assets are financed by equity.

The company's debt has maturity dates ranging from 2018 through 2019 and bears interest at a rates of 3.62% annually.

At September 30, 2018, the company had cash earnings of \$430,000 and a \$577,000 decrease in working capital that resulted in \$1 million of cash from continuing operations. Cash provided by investing activities of \$696,000 consisted primarily of a positive change in short-term investments offset in part by capital expenditures. Cash used in financing activities of \$4.4 million consisted primarily of the repayment of debt. Cash decreased by \$3 million to \$4.5 million (excludes \$292,000 of restricted cash) as of September 30, 2018.

	9M Ended (in thousands \$)	
	9/18A	9/17A
Sales	14,157	11,871
Licensing and transaction fees	4,332	3,765
Total revenue	18,489	15,636
Cost of sales	8,778	7,468
Cost of licensing	-	-
Total cost of revenue	8,778	7,468
Gross profit	9,711	8,168
Research and development	2,422	2,414
Selling and marketing	4,700	4,166
General and administrative	3,070	2,553
Other	-	-
Operating income (loss)	(481)	(965)
Financial expenses	(129)	(236)
Income (loss) cont. ops. before taxes	(610)	(1,201)
Income tax benefit (expense)	(73)	(68)
Net income (loss) cont. ops.	(683)	(1,269)
Net income (loss) discont. ops.	(114)	1,365
Net income (loss)	(797)	96
EPS cont. ops.	(0.02)	(0.03)
EPS discont. ops.	(0.00)	0.03
EPS	(0.02)	0.00
Shares Outstanding	41,260	41,100
Gross margin (sales)	38.0%	37.1%
Gross margin (licensing)	100.0%	100.0%
Gross margin (total)	52.5%	52.2%
Research and development	13.1%	15.4%
Selling and marketing	25.4%	26.6%
General and administrative	16.6%	16.3%
Operating margin	(2.6)%	(6.2)%
Year / Year Growth		
Sales revenue	19.3%	
Licensing revenue	15.1%	
Total revenue	18.2%	
Source: Company filings		

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 2015, 2016 and 2017, the company's customers related to mass transit in Poland provided 16%, 15% and 14%, respectively, of total revenues. Another customer in North America accounted for 9%, 8% and 12% of total revenues for 2015, 2016 and 2017, 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 41.1 million shares in the float and the average daily volume is approximately 77,000 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.

On Track Innovations Ltd.

Consolidated Balance Sheets
(in thousands \$)

	<u>2016A</u>	<u>2017A</u>	<u>9/18A</u>	<u>2018E</u>	<u>2019E</u>
Cash and cash equivalents	5,952	6,742	4,514	2,906	2,842
Short-term investments (includes restricted cash)	5,585	3,331	1,391	1,391	1,391
Trade receivables	5,620	5,827	4,026	6,113	7,013
Other receivables and prepaid expenses	1,638	1,563	2,676	2,676	2,676
Inventories	<u>3,069</u>	<u>3,009</u>	<u>3,356</u>	<u>3,403</u>	<u>3,902</u>
Total current assets	21,864	20,472	15,963	16,489	17,824
Restricted deposit for employee benefits	453	498	468	468	468
Severance pay deposits	322	405	358	358	358
Property, plant and equipment	5,788	5,859	5,246	5,424	5,035
Intangible assets	<u>278</u>	<u>336</u>	<u>264</u>	<u>264</u>	<u>264</u>
Total assets	<u>28,705</u>	<u>27,570</u>	<u>22,299</u>	<u>23,003</u>	<u>23,949</u>
Current debt	4,369	4,181	504	-	-
Trade payables	6,957	6,264	6,670	7,084	8,123
Other current liabilities	<u>2,822</u>	<u>2,421</u>	<u>2,133</u>	<u>2,133</u>	<u>2,133</u>
Total current liabilities	14,148	12,866	9,307	9,217	10,256
Long-term debt	1,215	814	8	-	-
Accrued severance pay	811	939	874	874	874
Deferred tax liability	<u>373</u>	<u>500</u>	<u>452</u>	<u>452</u>	<u>452</u>
Total liabilities	<u>16,547</u>	<u>15,119</u>	<u>10,641</u>	<u>10,543</u>	<u>11,582</u>
Total stockholders' equity	<u>12,158</u>	<u>12,451</u>	<u>11,658</u>	<u>12,459</u>	<u>12,366</u>
Total liabilities & stockholders' equity	<u>28,705</u>	<u>27,570</u>	<u>22,299</u>	<u>23,003</u>	<u>23,949</u>

Source: Company filings and Taglich Brothers' estimates

On Track Innovations Ltd.

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

	2016A	2017A	2018E	2019E
Sales	14,721	17,299	20,057	23,000
Licensing and transaction fees	5,843	5,083	5,832	6,700
Total revenue	20,564	22,382	25,889	29,700
Cost of sales	10,111	10,996	12,436	14,260
Cost of licensing	250	-	-	-
Total cost of revenue	10,361	10,996	12,436	14,260
Gross profit	10,203	11,386	13,453	15,440
Research and development	2,810	3,305	3,322	3,600
Selling and marketing	5,546	5,633	6,550	7,400
General and administrative	3,499	3,633	4,300	4,800
Other	239	83	-	-
Operating income (loss)	(1,891)	(1,268)	(719)	(360)
Financial expenses	(396)	(341)	(131)	-
Income (loss) cont. ops. before taxes	(2,287)	(1,609)	(850)	(360)
Income tax benefit (expense)	(82)	(74)	(91)	(33)
Net income (loss) cont. ops.	(2,369)	(1,683)	(941)	(393)
Net income (loss) discont. ops.	1,509	1,085	(114)	-
Net income (loss)	(860)	(598)	(1,055)	(393)
EPS cont. ops.	(0.06)	(0.04)	(0.02)	(0.01)
EPS discont. ops.	0.04	0.03	(0.00)	-
EPS	(0.02)	(0.01)	(0.03)	(0.01)
Shares Outstanding	40,915	41,110	41,270	41,300
<u>Margin Analysis</u>				
Gross margin (sales)	31.3%	36.4%	38.0%	38.0%
Gross margin (licensing)	95.7%	100.0%	100.0%	100.0%
Gross margin (total)	49.6%	50.9%	52.0%	52.0%
Research and development	13.7%	14.8%	12.8%	12.1%
Selling and marketing	27.0%	25.2%	25.3%	24.9%
General and administrative	17.0%	16.2%	16.6%	16.2%
Operating margin	(9.2)%	(5.7)%	(2.8)%	(1.2)%
<u>Year / Year Growth</u>				
Sales revenue		17.5%	15.9%	14.7%
Licensing revenue		(13.0)%	14.7%	14.9%
Total revenue		8.8%	15.7%	14.7%

Source: Company filings and Taglich Brothers' estimates

On Track Innovations Ltd.

Quarterly Income Statements 2017A - 2019E
(in thousands \$)

	<u>3/17A</u>	<u>6/17A</u>	<u>9/17A</u>	<u>12/17A</u>	<u>2017A</u>	<u>3/18A</u>	<u>6/18A</u>	<u>9/18A</u>	<u>12/18E</u>	<u>2018E</u>	<u>3/19E</u>	<u>6/19E</u>	<u>9/19E</u>	<u>12/19E</u>	<u>2019E</u>
Sales	2,780	5,646	3,445	5,428	17,299	4,481	4,656	5,020	5,900	20,057	5,300	5,600	5,100	7,000	23,000
Licensing and transaction fees	<u>1,240</u>	<u>1,300</u>	<u>1,225</u>	<u>1,318</u>	<u>5,083</u>	<u>1,381</u>	<u>1,498</u>	<u>1,453</u>	<u>1,500</u>	<u>5,832</u>	<u>1,600</u>	<u>1,650</u>	<u>1,700</u>	<u>1,750</u>	<u>6,700</u>
Total revenue	4,020	6,946	4,670	6,746	22,382	5,862	6,154	6,473	7,400	25,889	6,900	7,250	6,800	8,750	29,700
Cost of sales	1,800	3,476	2,192	3,528	10,996	2,754	2,973	3,051	3,658	12,436	3,286	3,472	3,162	4,340	14,260
Cost of licensing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total cost of revenue	<u>1,800</u>	<u>3,476</u>	<u>2,192</u>	<u>3,528</u>	<u>10,996</u>	<u>2,754</u>	<u>2,973</u>	<u>3,051</u>	<u>3,658</u>	<u>12,436</u>	<u>3,286</u>	<u>3,472</u>	<u>3,162</u>	<u>4,340</u>	<u>14,260</u>
Gross profit	2,220	3,470	2,478	3,218	11,386	3,108	3,181	3,422	3,742	13,453	3,614	3,778	3,638	4,410	15,440
Research and development	702	889	823	891	3,305	830	815	777	900	3,322	900	900	900	900	3,600
Selling and marketing	1,342	1,492	1,332	1,467	5,633	1,645	1,463	1,592	1,850	6,550	1,725	1,800	1,700	2,175	7,400
General and administrative	856	939	758	1,080	3,633	907	1,065	1,098	1,230	4,300	1,200	1,200	1,200	1,200	4,800
Other	-	-	-	83	83	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	(680)	150	(435)	(303)	(1,268)	(274)	(162)	(45)	(238)	(719)	(211)	(122)	(162)	135	(360)
Financial expenses	(71)	(39)	(126)	(105)	(341)	(32)	(95)	(2)	(2)	(131)	-	-	-	-	-
Income (loss) cont. ops. before taxes	(751)	111	(561)	(408)	(1,609)	(306)	(257)	(47)	(240)	(850)	(211)	(122)	(162)	135	(360)
Income tax benefit (expense)	(31)	(25)	(12)	(6)	(74)	11	27	(111)	(18)	(91)	(8)	(7)	(2)	(16)	(33)
Net income (loss) cont. ops.	(782)	86	(573)	(414)	(1,683)	(295)	(230)	(158)	(258)	(941)	(219)	(129)	(164)	119	(393)
Net income (loss) discont. ops.	(83)	7	1,441	(280)	1,085	(38)	(50)	(26)	-	(114)	-	-	-	-	-
Net income (loss)	(865)	93	868	(694)	(598)	(333)	(280)	(184)	(258)	(1,055)	(219)	(129)	(164)	119	(393)
EPS cont. ops.	(0.02)	0.00	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.00)	(0.01)	(0.02)	(0.01)	(0.00)	(0.00)	0.00	(0.01)
EPS discont. ops.	(0.00)	0.00	0.03	(0.01)	0.03	(0.00)	(0.00)	(0.00)	-	(0.00)	-	-	-	-	-
EPS	(0.02)	0.00	0.02	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)	(0.01)	(0.00)	(0.00)	0.00	(0.01)
Shares Outstanding	41,080	41,096	41,123	41,110	41,110	41,214	41,272	41,294	41,300	41,270	41,300	41,300	41,300	41,300	41,300
<u>Margin Analysis</u>															
Gross margin (sales)	35.3%	38.4%	36.4%	35.0%	36.4%	38.5%	36.1%	39.2%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
Gross margin (licensing)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin (total)	55.2%	50.0%	53.1%	47.7%	50.9%	53.0%	51.7%	52.9%	50.6%	52.0%	52.4%	52.1%	53.5%	50.4%	52.0%
Research and development	17.5%	12.8%	17.6%	13.2%	14.8%	14.2%	13.2%	12.0%	12.2%	12.8%	13.0%	12.4%	13.2%	10.3%	12.1%
Selling and marketing	33.4%	21.5%	28.5%	21.7%	25.2%	28.1%	23.8%	24.6%	25.0%	25.3%	25.0%	24.8%	25.0%	24.9%	24.9%
General and administrative	21.3%	13.5%	16.2%	16.0%	16.2%	15.5%	17.3%	17.0%	16.6%	16.6%	17.4%	16.6%	17.6%	13.7%	16.2%
Operating margin	(16.9)%	2.2%	(9.3)%	(4.5)%	(5.7)%	(4.7)%	(2.6)%	(0.7)%	(3.2)%	(2.8)%	(3.1)%	(1.7)%	(2.4)%	1.5%	(1.2)%
<u>Year / Year Growth</u>															
Sales revenue					17.5%	61.2%	(17.5)%	45.7%	8.7%	15.9%	18.3%	20.3%	1.6%	18.6%	14.7%
Licensing revenue					(13.0)%	11.4%	15.2%	18.6%	13.8%	14.7%	15.9%	10.1%	17.0%	16.7%	14.9%
Total revenue					8.8%	45.8%	(11.4)%	38.6%	9.7%	15.7%	17.7%	17.8%	5.1%	18.2%	14.7%

Source: Company filings and Taglich Brothers' estimates

On Track Innovations Ltd.

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

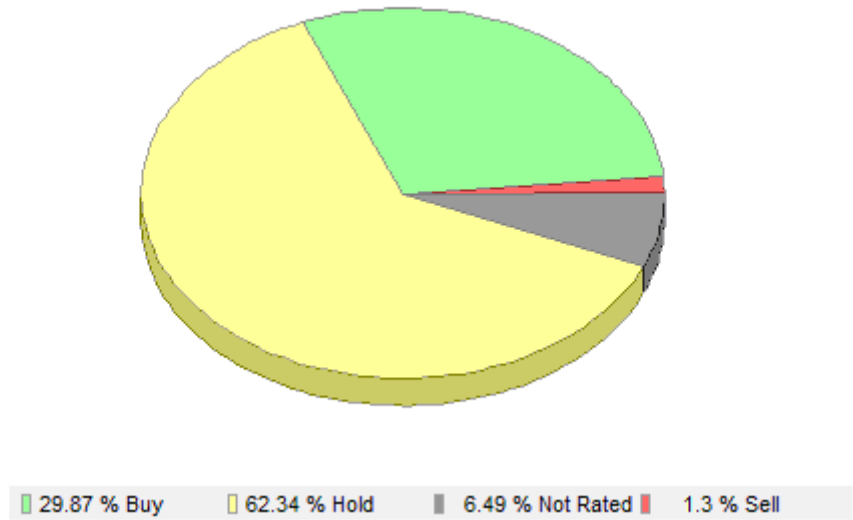
	2016A	2017A	9m18A	2018E	2019E
Net income (loss) continuing ops.	(2,369)	(1,683)	(683)	(941)	(393)
Stock-based compensation	239	254	180	250	250
Loss (gain) on sale of property and equipment	83	52	(25)	(25)	-
Accrued interest and linkage differences	56	(6)	-	-	-
Depreciation and amortization	1,172	1,172	978	1,266	1,220
Deferred tax	82	47	(20)	(20)	-
Cash earnings (loss)	(737)	(164)	430	530	1,077
<i>Changes in assets and liabilities</i>					
Accrued severance pay	(183)	45	(19)	(18)	-
Trade receivables	(3,493)	(225)	1,744	541	(1,081)
Other receivables and prepaid expenses	290	(110)	(1,162)	(1,113)	-
Inventories	(112)	112	(381)	(394)	(499)
Trade payables	1,793	(1,428)	668	820	1,039
Other current liabilities	300	(518)	(273)	(288)	-
(Increase) decrease in working capital	(1,405)	(2,124)	577	(452)	(541)
Net cash provided by (used in) continuing operations	(2,142)	(2,288)	1,007	78	536
Net cash provided by (used in) discontinued ops.	2,009	1,473	(115)	(115)	-
Purchase of property and equipment	(311)	(293)	(467)	(650)	(650)
Proceeds from sale of property and equipment	1,779	17	52	52	-
Change in short-term investments	(116)	2,264	1,195	1,195	-
Investment in capitalized product costs	(188)	(239)	(92)	(92)	-
Investment in restricted deposit for employee benefits	(44)	-	-	-	-
Proceeds from restricted deposit for employee benefits	142	44	8	8	-
Net cash provided by (used in) investing	1,262	1,793	696	513	(650)
Increase (decrease) in short-term debt	1,018	(335)	(3,449)	(3,953)	-
Proceeds from long-term debt	27	-	-	-	-
Repayment of long-term debt	(1,581)	(632)	(979)	(987)	-
Proceeds from exercise of options and warrants	177	92	34	50	50
Net cash provided by (used in) financing	(359)	(875)	(4,394)	(4,890)	50
Effect of currency exchange rates	(268)	687	(187)	(187)	-
Net change in cash	502	790	(2,993)	(4,601)	(64)
Cash - beginning of period	5,450	5,952	6,742	6,742	2,906
Cash - end of period	5,952	6,742	4,514	2,906	2,842
Restricted cash	1,548	1,057	292	292	292
Cash and restricted cash end of period	7,500	7,799	4,806	3,198	3,134

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	3	11
Hold		
Sell		
Not Rated	1	50

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Analyst Certification

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:

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.