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**Roumell** Asset Management, LLC

FINDING VALUE THROUGH OUT OF FAVOR, OVERLOOKED OR MISUNDERSTOOD SECURITIES

MOI GLOBAL – JANUARY 2022



# OPERA LIMITED (OPRA)

A Growing World Leading Browser with Three Valuable Joint Venture Investments

## **SUMMARY**

- Underappreciated growing Browser business (50% advertising/50% search) with embedded high margins
- Non-core Joint Venture Investments have significant unrecognized value
- Major investments in growth or marketing initiatives were completed in 2021 setting up meaningful EBITDA margin expansion
- Cash rich, debt-free balance sheet

Opera is one of the world's leading Browser providers and an influential player in the field of integrated AI-driven digital content discovery and recommendation platforms. Founded in 1995, Opera is the everyday browser of choice for more than 350 million people. The company's headquarters is in Oslo, Norway.

Opera was listed on the Oslo exchange in the late 1990s. The company was then taken private in 2016 by a consortium of Chinese investors. In 2018, the company began trading on Nasdaq as "OPRA."

We believe that the combination of the presence of a Chinese founder and an entity domiciled in Norway has resulted in a misunderstood investment opportunity. Today, less than 1% of OPRA's shares are sold short indicating the absence of any material short thesis.



# OPERA LIMITED (OPRA)

## BROWSER

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Opera's Browser core users are in Africa, Asia ex-China, Europe and India. Opera provides unique and tailored functionality for various markets. The company leverages its Browser to launch additional products such as Opera News (an AI-powered content distribution platform) and HYPE chat for Opera Mini (first chat app built into a mobile browser). This drives user engagement and subsequently leads to monetization through search and advertising. Opera announced over 1 billion cumulative downloads on the Google Play Store.

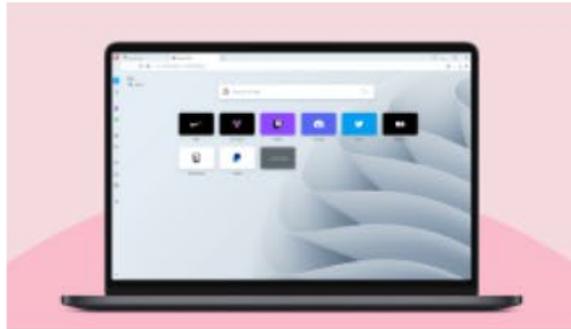
OPRA's browser architecture is built to use less data, an important feature in Africa, which does not have unlimited data plans.

OPRA is actively looking to expand into North America through the use of key influencers. Opera News was rebranded as Apex in North America and is recently ranked #3 in News app downloads on Android.

In December 2021, OPRA announced the renewal on substantially similar terms of the multi-year commercial agreement to distribute Google Search in Opera browsers. Opera has had a search distribution agreement with Google since 2001.

# OPERA LIMITED (OPRA)

## BROWSER



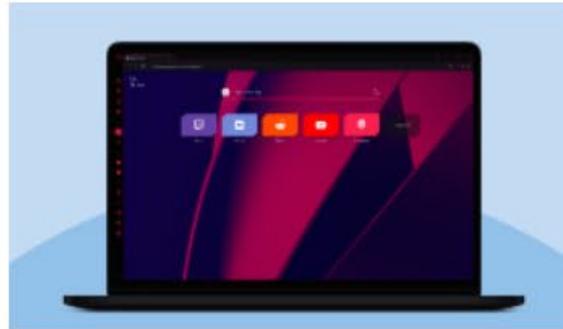
Opera

Your personal browser



Opera

Your personal mobile browser



Opera GX

The browser for gamers



Opera GX

The browser for gamers



Opera for Chromebook

The perfect browser for your Chromebook



Opera Mini

A light data-saving browser



# OPERA LIMITED (OPRA)

Opera has introduced new functionality to its Browser to generate new revenue streams in addition to its traditional advertising and search.

## **FINTECH & GAMING**

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Opera is also involved in FinTech. It recently launched in-browser e-commerce functionality supporting cashback and couponing activities under the brand Dify in Europe.

Lastly, Opera has a Gaming segment. Opera GX is the world's first and only true gaming browser, with over 13 million monthly active users and is the largest Discord server in the Tech section. GX is a starting point into additional monetization and gaming opportunities. With its recent acquisition of YoYo Games' GameMaker Studio, Opera has the opportunity to form a one-stop gamer community for creating, distributing and monetization of games under one platform first on PC and also on Mobile.

# OPERA LIMITED (OPRA)

Opera has three joint venture investments: OPay, StarMaker and Nanobank

## OPAY

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OPay is the largest mobile money provider in Nigeria. In December 2020, monthly transactions grew 4.5x to over \$2 billion in online/POS transaction volume. Currently, monthly transaction volumes exceed \$3 billion. In June 2021, OPay had a capital raise that had a post-money valuation of \$2 billion. Opera sold 29% of its interest in the deal and now owns roughly 6.4% of OPay, after accounting for a fully diluted OPay share base. The implied value for OPRA's stake is \$130 million. The value recognized in the OPay sale was substantially more than the company's carrying value, i.e., by a factor of roughly 175%, reflecting what we believe to be the company's conservative accounting of its joint venture investments.

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## STARMAKER

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StarMaker is a technology-driven social media company focused on music and entertainment. StarMaker is popular in emerging markets like Southeast Asia, Middle East, and is also seeing solid growth in developed markets. StarMaker enables users to record and share their own music videos, collaborate with other musicians, connect with other users and follow their idols on the social platform. StarMaker is a popular singing app and music community with over 100 million users globally. It is available on Apple app store and Google Play. Opera owns 19.4% of StarMaker. The current revenue rate is \$230mm with a 20% net income margin. Assuming \$300mm in revenue, which should be achieved within six months given the company's growth rate, at 20% net margin, and applying a multiple of 15x results in a value of roughly \$900 million (3x revenue) for an implied OPRA value of \$175 million.

# OPERA LIMITED (OPRA)

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## **NANOBANK**

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Nanobank is focused on microlending. It has a unique and centralized AI-based credit scoring with which it leverages a massive user engagement database. Nanobank is currently growing in Egypt, Indonesia, Mexico and Kenya and has over 50 million registered users. In 2019, revenue was \$209 million with 32% pre-tax margins. Approximately \$2 billion in loans have been issued in the last two years. The current revenue run rate is \$230 million. Nanobank has plans to launch in additional markets and to expand fintech product offerings. In August 2020, Opera estimated the fair value of Nanobank to be \$660 million. With Opera's 42% ownership, its implied value is \$275mm. Importantly, Nanobank does not leverage its balance sheet but simply lends out its own capital on an unlevered basis.



# OPERA LIMITED (OPRA)

Opera has three joint venture investments: OPay, StarMaker and Nanobank

## JV INVESTMENT VALUE

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It is the company's intention to unlock significant shareholder value from these three investments as they are not considered strategic to the long-term business. Moreover, there will be no taxes due on any realized gains since these entities are organized in the Cayman Islands and Hong Kong. We estimate the total value of the three investments (\$130 million OPay + \$175 million StarMaker + \$275 million Nanobank) to be \$580 million.

# OPERA LIMITED (OPRA)

## Implied Value of Browser

### VALUATION

Share Price:	\$7.60
American Depositary Shares:	116 million
Market Capitalization:	\$882 Million
Less: Cash (no debt):	\$193 million
Enterprise Value:	\$689 million
Less: Value of 3 JV Investments	(\$580 million)
Implied Value of Browser	\$109 million

# OPERA LIMITED (OPRA)

## ESTIMATES & ASSUMPTIONS

### VALUATION

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- In 2021, revenue is estimated to be \$248 - \$250 million, a 51% year-over-year increase versus 2020 at the midpoint.
- Due to the company's growth expectations and return on investment, Opera made the strategic decision to invest heavily in new initiatives and scale.
- Therefore, instead of management's estimated normalized 30% - 40% EBITDA margin (Adjusted EBITDA margin in Q4 2020 was nearly 30%), 2021 EBITDA margin is expected to be about 9%-10% (\$23 - \$26 million).
- Margins are expected to steadily increase as the core browser business grows, new initiatives (FinTech and Gaming) gain scale and large investments in initiatives have been substantially completed.
- Over the next few years, we expect revenue to grow 20% annually. Assuming \$300 million revenue and a 35% EBITDA margin results in \$105 million EBITDA. This implies a current value of 1x EBITDA for the Browser, an extremely low valuation that limits the downside risk in our opinion.

# OPERA LIMITED (OPRA)

## ESTIMATES & ASSUMPTIONS

### VALUATION

Placing a 10x multiple on OPRA's embedded Browser EBITDA equates to roughly \$1 billion.

#### SOTP

Cash:	\$193 million
Investments:	\$580 million
Browser:	\$1.050 billion
Sum	\$1.823 billion/116 mill shares = \$16/share



# OPERA LIMITED (OPRA)

## SENIOR MANAGEMENT

Yahui Zhou, Chairman and Co-CEO since July 2016 – located in China

2016 post acquisition of Opera interview with Yahui Zhou: <https://www.youtube.com/watch?v=XBz-Y272tbg>

Lin Song, Co-CEO since August 2020, previously COO – located in Norway

Frode Jacobsen, CFO since April 2016 – located in Norway

We have had numerous discussions with Frode Jacobsen, CFO, and several discussions with Lin Song, Co-CEO.

We believe the company's leadership to be competent, honest and focused on maximizing shareholder value. We think that management is an exceptional operator and capital allocator, which is underscored by the steady success of the Browser business and meaningful returns on the JV investments.

OPRA's financial statements are audited by KPMG (an internationally recognized "Big 4" accounting firm).



# OPERA LIMITED (OPRA)

## CONCLUSION

One of the concerns about this security is that the Founder/Co-CEO/Chairman of Opera, Yahui Zhou, beneficially owns 64% of the company so there is a small publicly-traded float. Additionally, the company does not need to raise capital so there is little coverage or interest from the sell-side. Opera is aware of these issues and is seeking ways to address them.

Zhou has effectively been buying stock given his ownership in Kunlun Tech Ltd (KTL). Zhou is the Chairman/CEO of KTL and largest shareholder of KTL. In November 2021, KTL purchased 1.9mm American Depositary Shares of OPRA for a total purchase price of \$16.5mm (\$8.51/sh avg).

In our view, OPRA is a classic Roumell investment that is well-capitalized, debt-free, with multiple shots on goal, that can be purchased cheaply.

Disclosure: The specific security identified and described does not represent all of the securities purchased, sold, or recommended, and the reader should not assume that investment in the security identified and discussed was or will be profitable.