

JumpTV

JTV : TSX : C\$7.23

JTV : AIM

BUY

Target: C\$8.75

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COMPANY STATISTICS:

52-week Range: 5.30-8.29
 Avg. Daily Vol. (000): 64
 Market Capitalization (M): 291.8

EARNINGS SUMMARY:

FYE Dec	2006E	2007E	2008E
P/Sales:	NA	15.7x	5.1x
P/E:	NA	NA	NA
Sales:			
Q1	0.3A	0.8	9.9
Q2	0.4A	2.7	12.3
Q3	0.5A	6.7	15.3
Q4	0.7	8.2	19.2
Total	2.0	18.5	56.8
EPS:			
Q1	(0.21)A	(0.29)	(0.19)
Q2	(0.31)A	(0.27)	(0.17)
Q3	(0.23)A	(0.23)	(0.20)
Q4	(0.28)	(0.21)	(0.20)
Total	(1.03)	(1.00)	(0.76)

EPS include \$0.02/quarter in stock-based compensation.

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

JumpTV holds exclusive broadband distribution rights to over 200 ethnic television channels across the globe. The company sells single- and multiple-channel packages for prices beginning at \$9.95/month and sells directly to consumers as well as through partners such as Terra Networks.

All amounts in C\$ unless otherwise noted.

Technology -- Digital Media and Software

ADJUSTING ESTIMATES AFTER Q3 REPORT

- On November 8, JumpTV reported its September quarter results. However, a lock-up expiration restricted our ability to publish research and update our model. We are now free to do so.
- The company reported C\$534,000/C\$(0.23), compared with our C\$500,000/C\$(0.31) estimates, with expenses coming in below our expectations.
- The addition of 5,700 subscribers raises the sub base to 22,019 subscribers and total subscriptions to 23,885, which includes multi-channel bundles. The company now has over 230 signed channels, up from 204 in June and 59 a year ago. Average revenue per user (ARPU) declined from C\$10.31 in Q2 to C\$9.43 in Q3 as the company experimented with a one-month 99¢ trial offer.
- Churn remains a major issue, rising from 15.8%/month in Q2 to 22.8% in Q3. The company attributes the spike in churn to the testing of the 99¢ one-month trial which caused some subscribers to drop their subscriptions in order to sign up for the 99¢ offer.
- Subscriber acquisition costs (SAC) remained under control in Q3 at C\$21.80, which was down from C\$30 in Q2. Marketing to-date has been modest but should ramp in Q1/07 as the company begins sponsorships with several ethnic portals and increases its paid search activities.
- The most significant piece of news on the call was that the major marketing campaign planned for Q4 is being pushed off until Q1. This is a function of the fact that the revamped website launched a month later than was originally planned and that the Telefonica venture has not yet gone live. Telefonica should begin offering Jump content on its Latin American websites before year-end.

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- Subsequent to reporting the quarter, the company has continued to build out its content, striking deals for Israeli Football (both subscription and PPV) and adding the #1 channels from both Thailand and Sierra Leone.
- We have adjusted our model to reflect the push-out of customer acquisition activities until Q1 as well as the lower expense levels seen in Q3. Our 2006 estimates go from \$2.0M/\$(1.18) to \$2.0M/\$(1.03), and our 2007 projections go from \$21.3M/\$(1.07) to \$18.6M/\$(1.00). All EPS estimates include \$0.02 per quarter in stock-based compensation.
- JumpTV is still in pre-game warm-ups, with the game set to begin in Q1 as customer acquisition efforts are launched. Clearly there is a ton of blocking and tackling to be done and it will take several quarters to get a feel for key metrics such as SAC, ARPU and churn. Still, we believe there is value in the large portfolio of exclusive content the company has assembled to play into the rising tide of the ethnic Diaspora.
- For clients that can invest in early-stage companies, JumpTV is a unique play on IPTV/Internet television with a growing store of value in its exclusive channel relationships. We reiterate our BUY rating and C\$8.75 target (based on 3.2x EV/2008E revenues).

RISKS

Risk factors that could prevent the shares from reaching our price target include:

- Scaling the subscriber business in a prudent and economic manner;
 - Managing churn of the subscriber base;
 - Building out the company's infrastructure;
 - Quarter-to-quarter variability due to the small size of the company; and
 - Other risk factors as detailed in the company's filings.
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Figure 1: P&L

JumpTV
(000) US\$

	De05	Q106	Q206	Q306	Q406E	De06E	Q107E	Q207E	Q307E	Q407E	De07E	Q108E	Q208E	Q308E	Q408E	De08E
Revenue	745	351	427	535	695	2,007	834	2,711	6,777	8,268	18,590	9,921	12,303	15,378	19,223	56,825
Direct broadcast operating costs	231	250	481	706	1,738	3,175	1,752	2,575	3,388	4,134	11,849	4,762	5,905	7,382	8,843	26,892
Gross Margin	515	100	(54)	(171)	(1,043)	(1,168)	(917)	136	3,388	4,134	6,740	5,159	6,397	7,997	10,380	29,934
Selling, General and Administrative	495	3,356	5,865	5,319	7,646	22,185	7,924	8,403	10,165	10,500	36,993	10,517	11,072	13,840	16,339	51,769
Stock-Based Compensation	157	766	561	1,417	561	3,306	640	640	640	640	2,560	640	640	640	640	2,560
Depreciation & Amortization	15	22	26	34	35	117	90	150	160	180	580	450	450	450	450	1,800
Total Operating Expenses	666	4,144	6,452	6,770	8,242	25,607	8,654	9,193	10,965	11,320	40,133	11,607	12,162	14,930	17,429	56,129
Operating Income (Loss)	(152)	(4,044)	(6,505)	(6,942)	(9,284)	(26,775)	(9,571)	(9,058)	(7,577)	(7,186)	(33,392)	(6,448)	(5,765)	(6,934)	(7,049)	(26,195)
(Gain) Loss of Foreign Exchange	4	(8)	17	(108)	-	(99)					-					-
Internet Income (Expense)	8	(71)	(85)	(351)	450	(57)	400	350	300	280	1,330	200	150	120	100	570
Pretax Income	(164)	(3,964)	(6,437)	(6,483)	(9,734)	(26,619)	(9,971)	(9,408)	(7,877)	(7,466)	(34,722)	(6,648)	(5,915)	(7,054)	(7,149)	(26,765)
Income Taxes	-	13	12	11	15	51	25	25	25	25	100	25	25	25	25	100
Net Income (Loss)	(164)	(3,977)	(6,449)	(6,494)	(9,749)	(26,670)	(9,996)	(9,433)	(7,902)	(7,491)	(34,822)	(6,673)	(5,940)	(7,079)	(7,174)	(26,865)
EPS	\$ (0.21)	\$ (0.31)	\$ (0.23)	\$ (0.28)	\$ (1.03)	\$ (0.29)	\$ (0.27)	\$ (0.23)	\$ (0.21)	\$ (1.00)	\$ (0.19)	\$ (0.17)	\$ (0.20)	\$ (0.20)	\$ (0.76)	
EPS (ex SBC)	\$ (0.17)	\$ (0.28)	\$ (0.18)	\$ (0.27)	\$ (0.89)	\$ (0.27)	\$ (0.25)	\$ (0.21)	\$ (0.20)	\$ (0.93)	\$ (0.17)	\$ (0.15)	\$ (0.18)	\$ (0.18)	\$ (0.68)	
FD Shares Outstanding (Mil)		18.784	21.055	28.848	34.500	25.797	34.700	34.800	34.900	35.000	34.850	35.200	35.400	35.600	35.800	35.500
Operating Metrics:																
Revenue Growth Y/Y							138%	535%	1168%	1090%	826%	1090%	354%	127%	133%	206%
Revenue Growth Q/Q			21.8%	25.2%	30.0%		20.0%	225.0%	150.0%	22.0%		20.0%	24.0%	25.0%	25.0%	
Gross Margin		28.6%	-12.6%	-32.1%	-150.0%		-110.0%	5.0%	50.0%	50.0%		52.0%	52.0%	52.0%	54.0%	
SG&A		957.4%	1373.5%	994.8%	1100.0%		950.0%	310.0%	150.0%	127.0%		106.0%	90.0%	90.0%	85.0%	
# of Subscriptions			18,119	23,885												
Q/Q Growth in Subscriptions				32%												
Begin Subscribers		11,572	13,850	16,319	22,019											
Ending Subscribers	11,572	13,850	16,319	22,019	32,000	32,000					250,000					500,000
Net Subs Added		2,278	2,469	5,700	9,981											
Q/Q Sub Growth		20%	18%	35%	45%											
ARPU (reported)		\$ 9.19	\$ 10.31	\$ 9.43												
SAC		\$	\$ 30.00	\$ 21.80												
Channels Signed		138	204	225	240											
Channels Live			144	165-185												
Monthly Churn			15.8%	22.8%												

Source: Canaccord Adams and Company documents

Figure 2: Balance Sheet

	De05	Q106	Q206	Q306
<i>Balance Sheet</i>				
<i>Assets</i>				
Cash and equivalents	5,475		5,110	54,020
Other receivables	78		289	487
Prepaid expenses	15		483	1,266
Total Current Assets	5,568		5,882	55,773
Equipment, net	380		934	977
Intangibles			465	464
Other assets	105		116	228
Deferred direct broadcast costs	97		79	262
Deferred share issuance costs			3,450	-
Total Assets	6,150		10,927	57,705
<i>Liabilities and Shareholder's Equity</i>				
Accounts Payable	1,009		3,251	2,231
Due to related parties	138		28	6
Current portion of accrued lic. Fee	80		42	66
Accrued professional fees	196		3,309	558
Accrued Stock Appreciation Rights	-		-	624
Deferred revenue	56		81	103
Income tax payable	17		42	53
Total Current Liabilities	1,495		6,753	3,640
Accrued license fee	120		120	120
Shareholder's Equity	4,535		4,054	53,944
Total Shareholder's Equity	6,150		10,927	57,705

Source: Company Reports

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An analyst has visited the issuer's material operations in the United States. No payment or reimbursement was received from the issuer for the related travel costs.

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Global Stock Ratings
(as of 31 October 2006)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	303	57.2%	43.2%
Speculative Buy	64	12.1%	54.7%
Hold	142	26.8%	36.6%
Sell	21	4.0%	9.5%
	530	100.0%	

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