



JumpTV Inc.

(JTV-T C\$2.39, JMPVF.PK US\$2.50)

Time to Tune In

(YE - Dec)	Revenue	EBITDA	EPS	Subscribers	
				Average	Ending
FY06	2.1	(26.0)	(0.99)	20k	28k
FY07e	9.5	(24.0)	(0.50)	45k	90k
FY08e	30.0	(8.0)	(0.21)	115k	135k
FY09e	52.6	3.8	0.04	150k	165k

Financial Summary (US\$ unless otherwise noted)

- **Jordan Banks, former Managing Director of eBay Canada, will replace G. Scott Paterson as CEO of JumpTV effective November 12. Mr. Paterson will assume the role of Executive Chairman.**
- **Company announced an aggressive operating expense reduction and the roll-out of a free to consumer, ad-supported offering in the United States, beginning in Q3 07.**
- **We expect a steady pace of growth announcements from JumpTV over the near term. The company continues to add new channels on a weekly basis as well as focusing on the third phase of its growth plan: subscriber / viewer growth. Recent financing provides necessary capital to pursue a near term acquisition strategy.**

Change in Leadership

JumpTV announced a change in executive leadership yesterday. Current CEO, G. Scott Paterson is becoming Executive Chairman, while handing over the CEO title to Jordan Banks, currently a member of the Board of Directors. Mr. Banks was most recently the managing director of eBay Canada. Under his leadership (he was employee number 2), eBay Canada has grown to have over 5m users and generates in excess of \$1b in annual revenue. This change is effective November 12th. Prior to eBay, Banks managed the Licensing & International Business Group for the NHL Players Association.

Also announced yesterday, current President & COO, Kaleil Isaza Tuzman is stepping down from his operating role, while maintaining his seat on the Board of Directors.

We believe Mr. Banks has the right skill set to lead JumpTV forward. He has considerable experience with Internet businesses, sports and advertising, all key aspects to the JumpTV growth strategy. This move will allow Mr. Paterson to focus on the strategic vision of the company.

Stock Rating:

Buy

12-month target ↓C\$6.00

Potential ROR 151%

Company Profile

Sector Entertainment

Ticker JTV-T, JTV-A

Shares O/S (m) 34.0

Shares O/S FD (m) 48.4

Mkt cap (\$m) 85.0

Next event Q3/FY07 results

Key Metrics

Cash/sh (\$) \$1.20

Analyst

Corey J. Hammill

(416) 361-0754

chammill@paradigmcapinc.com

Sales

Toronto (866) 361-1064

Calgary (877) 513-1025

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JTV 1-Yr stock price chart



10/16/07 Target lowered (\$6.00)

01/08/07 Initiating target price (\$15.00)

Source: Bloomberg



Recall Q2 – Revenue Growing, Expenses Declining

We have included the following table to recap its last quarterly results:

	Q2 07	Q1 07	Change
Revenue	\$ 1,175,924	\$ 1,003,146	17%
Subscriptions	34,148	34,496	-1%
Channels	302	280	8%
Average Monthly Revenue per User	\$ 11.42	\$ 11.52	-1%
Subscriber Acquisition Costs	\$ 33.69	\$ 51.72	-35%
Monthly Churn	13.3%	12.5%	80 bps

Revenue's were generated from monthly subscriptions and for the first time, advertising (\$125k). The company is continually adding channel bundles as a way of enhancing the consumer offering as well as increasing ARPU.

Looking to the balance sheet, JumpTV finished Q2 with \$128m of cash on hand. The company continues to have no debt. More relevant we believe is the projected cash balance currently post the two recent acquisitions. We believe cash balance today is roughly \$60m

What to Do with the Remaining Cash

We believe JumpTV will use its remaining cash position to make acquisitions that will:

- Compliment the existing business (i.e. buy a company with content relationships)
- Expand the product offering (i.e. mobile applications)
- Expedite the growth of revenue and positive earnings

Cost Cutting now in Place

JumpTV announced at its annual general meeting in May that it has cut roughly \$1m per month out of its operating expenses. This has been achieved through both headcount reduction and a review of all operations in light of earlier than expected roll-out of a free to consumer product offering. This took effect in June.

Free to Consumer

JumpTV has begun offering roughly 108 channels in the United States on an ad-supported basis. This is a popular model for numerous reasons. First, by offering the product for free, it obviously generates a significant number of viewers. Those viewers can be monetized through the selling of advertising. The two types of advertising we expect to see on the on the ad-supported channels will be:

- **Video Pre-roll**
 - A video pre-roll is the video that is shown while the requested video is loading (buffering). This requested video typically requires a few seconds at a minimum to load, thereby making it an ideal time to offer a targeted advertisement.
- **Banners (including Leader board and Skyscrapers)**
 - A leaderboard is a popular type of banner advertisement. A leaderboard is the width of the page and typically lies between the masthead (the title area at the top of a Web page) and content. A skyscraper ad is a tall and narrow banner advertisement usually placed to the right of content on a Web page.



Another positive benefit of going ad-supported on certain channels is that it allows JumpTV to advertise its premium offering, which will continue to be offered on a subscription or pay-per-view basis. For example, JumpTV has an extensive selection of sporting events from around the world.

More Focus on Advertising Model – Changes to our Forecast

We believe JumpTV remains poised to significantly ramp its subscriber count in 2007 based on an aggressive marketing campaign and greater overall product awareness. Also, the addition of the XoS sports network should add a considerable number of new users.

When we originally modeled JumpTV, we expected the company to maintain a subscription model for a longer period of time than has proven to be accurate. We fully support the free-to-consumer model, but it has an effect on our forecast.

Key Assumptions Driving Forecast

FY08 – A year of Traction

- Average subscribers
 - 115,000
- Average revenue per subscriber / month
 - \$12.00
- Revenue contribution from advertising
 - \$9m

FY09 – A year of Continued Growth

- Average subscribers
 - 133,000
- Average revenue per subscriber / month
 - \$12.50
- Revenue contribution from advertising
 - \$25m

We are expecting advertising revenue to grow from near zero to \$9m next year. We believe that online advertising will continue to experience considerable growth as advertisers embrace online advertising more fully. We believe many advertisers are testing the waters of online advertising, and in the coming quarters, these tests are likely to yield a significant increase in dollars spent online. In our opinion, online advertising dollars are going to follow Internet traffic, specifically, well defined demographics. We believe that JumpTV's product offering is well suited for this business as the company is able to provide a detailed demographic breakdown of users to its advertising clients.

Figure 9: Highlights of Revenue Forecast

	2006	2007e	2008e	2009e
REVENUE				
Net Subscription Revenue	\$ 2,220,000	\$ 5,942,149	\$ 15,870,000	\$ 21,600,000
Advertising	\$ -	\$ -	\$ 9,000,000	\$ 24,750,000
Ancillary Services		\$ 3,333,333	\$ 5,000,000	\$ 6,250,000
Revenue	\$ 2,061,031	\$ 9,469,661	\$ 29,870,000	\$ 52,600,000

Source: Paradigm Capital



We have lowered our revenue forecasts from our initial initiation of coverage. The big change is the transition to a free to consumer model more quickly than we had anticipated.

Changes to Forecast

	2008e		2009e	
	New	Old	New	Old
Revenue	\$30m	\$60m	\$52m	n/a
Net Income	(\$10m)	(\$13m)	\$2m	n/a

We believe JumpTV has seen its share price decline to a level that is essentially pricing the core business at near \$0. A quick sum of the parts including only cash on hand and the recent acquisition of XoS totals \$12m, the current market capitalization of the company.

We are valuing JumpTV using a 5x EV/Sales multiple applies to our FY09e sales forecast of \$50m. This results in a target price of \$6.00 (was \$15.00).

Although our target price has declined considerably, the stock, in our opinion, has been oversold.



Appendix 1: Income Statement

	2006	2007e	2008e	2009e
REVENUE				
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Ancillary Services		\$ 3,333,333	\$ 5,000,000	\$ 6,250,000
Revenue	\$ 2,061,031	\$ 9,469,661	\$ 29,870,000	\$ 52,600,000
Costs				
Direct Operating Costs	\$ 2,569,648	\$ 9,705,454	\$ 12,744,000	\$ 23,107,500
SG&A	\$ 21,690,938	\$ 23,747,350	\$ 25,075,300	\$ 25,653,000
EBITDA	\$ (26,296,906)	\$ (23,983,144)	\$ (7,949,300)	\$ 3,839,500
Stock based Comp	\$ 4,097,351	\$ 3,537,313	\$ 3,537,313	\$ 3,537,313
Amortization	\$ 150,950	\$ 528,929	\$ 2,000,000	\$ 2,000,000
EBIT	\$ (26,447,856)	\$ (28,049,386)	\$ (13,486,613)	\$ (1,697,813)
Interest expense	\$ (1,083,050)	\$ (4,998,221)	\$ (3,775,705)	\$ (3,775,705)
fx	\$ 186,990	\$ 86,303		
Income Taxes	\$ 45,300	\$ 43,950	\$ -	\$ -
Net Income	\$ (25,597,096)	\$ (23,181,418)	\$ (9,710,908)	\$ 2,077,892

Source: Paradigm Capital



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