

IF OMINTO WAS A PRIVATE COMPANY IT WOULD BE WORTH A FRACTION OF ITS CURRENT PRICE

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RESEARCH SUMMARY

If Ominto Was A Private Company, It Would Be Worth A Fraction Of Its Current Price

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 - It has tiny sales, stagnant growth and consistently loses \$1M-\$3M per quarter over the past four years.
 - A CEO of a top cash back website we interviewed hasn't even heard of Ominto or its cash back website Dubli.com.
 - Ominto has made what appears to be a non-arm's length merger with a company that has a completely different business.
 - We estimate Ominto's value to be \$1-\$2 per share, for an eventual 90% decline.
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Imagine Ominto was a private company looking to raise money on the TV series Shark Tank. Now imagine the CEO going into the room and saying:

"Hi Sharks, our business is in the online cash back industry. For the past four years, we have miniscule to no growth, average about \$20 million per year in revenues, and lose about \$10 million per year. We also acquired 40% of an animation company that has not produced anything notable. We'd like \$10 million for a 5% stake in our company."

Upon hearing this, Mark Cuban would immediately fall back in his chair and say: "Are you crazy? I'm out! I'm so out!"

If Ominto was a private company, we believe it would at best be worth \$10M-\$20M, or below \$2 per share.

Ominto ([OMNT](#)) is an online cash back company. It provides online cash back shopping deals through [ominto.com](#) and [dubli.com](#), which have the same content. Cash back companies are a dime a dozen and it's a tough business due to high competition and need for constant marketing to entice more customers. Ominto has had low revenues and continual losses every quarter for the past four years. We've found that Ominto isn't even among the top 20 cash back companies. The company hasn't said it publicly, but it appears from a recent strange merger with no synergies, that it's transitioning into the animated film business.

Ominto is a former OTC exchange traded stock that just recently got uplisted to the Nasdaq on March 20th. The stock is up over 150% within the last three months due to the excitement and new investor exposure from being on the NASDAQ. The company has liberally distributed its stock to insiders and partners, and some are just now able to sell their shares. In one case, April 5th will be the sixth month mark which allows the private placement investors to sell who bought one million shares at \$4 apiece on October 6, 2016.

Additionally, in December, Ominto engaged in a non-arm's length merger that has no apparent synergies and the Company didn't report it to be non-arm's length. It's with an animation company called Lani Pixels. Most of Ominto's executives are based in Europe, with the CEO and COO living in Dubai, and Lani Pixels is based in Denmark.

Note, we tried to contact Ominto's investor relations with questions and they replied:

"In accordance with Regulation FD, we are unable to provide you with any more details than what is in our filings with the SEC."

We asked them why do they have an investor relations department? They didn't reply to that question.

In our experience, companies that don't talk to inquiring investors are often bearish about their future. They don't want to give anything negative away. Companies that are bullish about their future are usually eager to speak to investors and explain their plans for the future.

If Ominto Was A Private Company - What Would It Be Worth?

Ominto is a struggling company that's flailing in the wind, with a history of paying employees in stock because they keep running out of cash. The cash back industry requires constant marketing expense to keep up revenues, which is why Ominto has had a \$1M+ loss every quarter since 2013. The proof is in the pudding. The following are Ominto's quarterly revenues, losses and marketing spend since 2013:



Source: [Ominto SEC filings](#)

As shown above, the revenues are very small, and the losses are over \$1M per quarter except for a couple of quarters in 2013. For its fiscal year ended 9/30/16, total revenues were \$17.7M and the loss was -\$10.6M. At a market cap of \$200M, this puts its price/sales multiple (P/S) at about 11, and it loses money hand over fist. Why would anyone pay that much for this company?

Some hot internet stocks have a P/S of 10 or more because they have a unique, disruptive technology and their sales are growing dramatically. It's clear that Ominto doesn't have a disruptive technology and is not growing. Maybe it could grow revenues if it poured more money into marketing and took a bigger quarterly loss, like it did in quarter ended 9/30/15. It's an online cash back company that can't seem to book a positive quarter no matter how much it spends on marketing.

A Questionable Merger

On 12/13/16 Ominto [announced](#) that it had for some reason acquired 40% of Danish animation firm Lani Pixels A/S for \$500K in cash and \$8.5M in stock valued at \$3.50 per share which equals 2.43M shares. At a \$10 per share value, the dollar amount of stock given equals \$24.3M.

Investors should ask what is the purpose of this merger? How would an animation company benefit a cash back company? What are the synergies between the two? We don't believe there are any synergies. In the announcement, Ominto says:

Ominto plans to continue to develop Lani Pixels as a marketing service company...

It also says on the Ominto announcement:

The expertise we gain from Lani Pixels animation content will advance our marketing acumen to a new level of sophistication

However, Lani Pixels isn't a marketing services company, it's an animation company. Look at the Lani Pixels [website](#). Under the "what we do" tab, it says absolutely nothing about marketing:



In the list of things that the company does above, it says absolutely nothing about marketing. If you go around the website, you can tell the company is about animation, not marketing. It doesn't even hint at it.

Lani Pixels doesn't appear to have produced much animation at that. [Here](#), it produced a film about the history of LEGO. [Here](#) is a short Happy Holidays video from Lani Pixels. These films are cute, but the movie/short film business is very hard to make money in. Very rarely is it a good investment.

Since animation is much different than the cash back industry, then why did this merger happen? What is the connection here? The devil lies in the details. Our research found that it appears to be a non-arm's length merger. The executives of both companies used to work together at LEGO Group.

In the merger announcement, it states:

Lani Pixels was founded by Kim Pagel and his son, Thomas Pagel, in 2000. Mr. Pagel has a long history in the creation and production of animated film content, including many years with the LEGO Group.

The key words here are "LEGO Group". That's also shown in Mr. Pagel's LinkedIn [profile](#):



Above, it shows that Mr. Pagel worked for 18 years for LEGO Group through the 80s and 90s. Looking at Ominto's CEO, Michael Hansen, LinkedIn [profile](#), it shows that he also worked at LEGO in the 1990s:



From Ominto's latest [10-K](#), it says of the COO Betina Dupont Sorensen:

Ms. Sorenson was employed in a Danish marketing firm and spent two years with Modulex, a division of LEGO where she worked in the accounting and logistics department.

Former coworkers making deals together isn't illegal. But we have to question it because Ominto should have made it clear that executives had worked in the past with Kim Pagel at LEGO, given that this merger doesn't make any sense.

So what is the real purpose of the merger? Is it some kind of a reverse merger plan where Ominto will transition from a cash back company to an animation company? Or something worse (we don't want to speculate)? Maybe Ominto is getting ready to transition into an animation company because they can't get their cash back business to work.

How was the animation company, Lani Pixels, appraised? How did Ominto come to value the company at \$22.5M? It's valued at more than double that now because Ominto's stock price has tripled in the past four months. Also of note is Mr. Pagel doesn't seem to have any restrictions on when he can sell his stock.

The Cashback Industry Is Very Competitive

Ominto has many competitors in the cash back industry. To learn more about the industry, we spoke with Frank DeBlasi, CEO of top cash back website Hoopladoopla.com. Note that in our interview, he stated he hasn't even



heard of Ominto or Dubli.

WDR: Have you heard of Ominto or Dubli? Are they top competition in the cash back space?

Frank: I have never heard of those companies until you just mentioned.

WDR: How big is cash back shopping?

Frank: Cash back shopping is one of many types of deal type websites out there, along with regular coupon sites and daily deal sites such as Groupon. Cash back sites generally generate the most traffic of the three groups because they offer incentives to shop, and feature popular stores where people shop every day.

There are lots of coupon sites out there which are very easy to set up. We have many shoppers on our sites that we know use competitors because they see us on cash back comparison sites. The best rate gets the sale.

The overhead running the business is very low, being there is no brick and mortar, and we are the middle man in the transaction.

The top cash back sites we compete with are Ebates, Fat Wallet, and Mr. Rebates. The top earnings for some of my competitors exceed \$100 million annually. With middle of the road competitors, it all depends on traffic. Anywhere between \$10 and \$50 million is respectable.

As shown earlier in this report, Ominto needs to spend a lot of marketing dollars to get revenues. Their marketing expense for the quarter is often higher than the revenue. We are not surprised that Mr. Blasi has never heard of Ominto or Dubli. They were not shown on websites that listed the top cash back sites.

Ominto Is Not Listed As One Of The Top Cashback Websites

If you do a Google search for “cash back companies” you’ll have a hard time finding Ominto or Dubli. We’ve found that Ominto isn’t even among the top 20 cash back/rebate companies.

Moneyjojo.com published on [article](#) on 1/5/17 listing the top 20 cash back and rebate sites for 2017.

Ominto.com and dubli.com are not listed. Moneyjojo.com lists:

20. Mypoints.com
21. Hoopladoopla.com
22. Cashcrate.com
23. Uniquerewards.com
24. Couponsurfer.com
25. Inboxdollars.com
26. Topcashback.com
27. Cashbackhouse.com
28. Ebates.com
29. Gifthulk.com
30. Sunshinerewards.com
31. Swagbucks.com

32. Gyft.com
33. Retailcashback.com
34. Savingstar.com
35. Ibotta.com
36. Refundsweepers.com
37. Quickrewards.com
38. DollarDig.com
39. Mrrebates.com

Rather-be-shopping.com published an [article](#), updated on 3/22/17, listing what they believe to be the top 11 cash back sites. Again, Ominto and Dubli are not listed. You will notice in their list, they mention some of the same sites as the previous article we mentioned.

The ones they list are:

Topcashback.com, iBotta.com, swagbucks.com, befrugal.com, ebates.com, mrrebates.com, mainstreetshares.com, shopathome.com, mypoints.com, couponcabin.com, and couponcactus.com.

To see a third cash back website ranking site to confirm which ones are the top, gobankingrates.com published an [article](#) on 12/18/16 titled: Top 10 Best Cash-Back Websites. Again, no Ominto or Dubli. This site lists some of the same sites but a couple new ones. It shows:

Upromise.com, befrugal.com, couponcactus.com, topcashback.com, shopathome.com, extrabux.com, ebates.com, mrrebates.com, swagbucks.com, and mainstreetshares.com.

Ominto's Large Stock Issuances And Upcoming Insider Sales

Ominto has issued a lot of shares to employees when it was low on cash. As well as to a merger, did a PIPE on 10/5/16, and issued the CEO 500K shares upon the uplisting. Eventually, these shares will be sold.

Date	Awarded Party	# shares awarded	Exercise Price	Filing link
10/5/2016	Non-US Persons	1 million	\$4	link
11/17/2016	Michael Hansen	500k	\$0	link
11/30/2016	Michael Hanson	17k	\$0	link
11/30/2016	Mitch Hill	13k	\$0	link
11/30/2016	Betina Sorensen	13.5k	\$0	link
11/30/2016	David Pollei	4k	\$0	link
11/30/2016	Peter Harris	2.5K	\$0	link
11/30/2016	Gregory Newell	2.5k	\$0	link



11/30/2016	Gary Baughman	2.5k	\$0	link
12/1/2016	Jaye LaBelle	50k	\$2.80	link
12/8/2016	Gregory Newell	30k	\$2.80	link
12/8/2016	Peter Harris	30k	\$2.80	link
12/8/2016	Gary Baughman	30k	\$2.80	link
12/13/2016	Lani Pixels	2.5 million	\$0	link

Above are the many stock issuances that Ominto awarded late last year. Starting from the top, Ominto did a private placement on October 6, 2016 with “non-US persons”, for 1 million shares at \$4 per share. Those shares don’t appear to have been registered per the SEC filings, so weren’t able to be sold legally. However, per [SEC rule 144](#), the securities can be sold after six months, in which case that would be April 5, 2017. So we may see some selling from that investor in the near future.

The second stock award on the above list, was to the CEO, Michael Hansen, who was awarded 500K shares upon the uplisting to the Nasdaq which was on March 20th.

The shares issued on 11/30 to employees were salary payments to employees at share prices between \$3-\$5, much lower than where the stock is today. Ominto paid its employees in stock because it was low on cash.

The shares issued to employees in December are stock options with an exercise price of \$2.80 per share. They vest monthly in equal installments for 36 months. So those employees have fresh new options every month.

The Lani Pixels deal and stock issuance is explained earlier in this article.

In addition to the above shareholders that will sell at some point, the company itself plans on selling shares. Mr. Hansen stated in its Q117 earnings [report](#):

“In addition, we believe trading on Nasdaq provides greater access to capital to support our future growth initiatives.”

That makes it clear that the company will engage in at least one equity raise going forward.

Conclusion

In conclusion, we actually find Ominto’s market cap unethically high to retail investors who don’t know how to value internet companies. For it to hop on the Nasdaq with a \$200M+ market cap, after years of failure, low revenues and consistent quarterly losses, it isn’t right to sell stock to the market at this price. A market cap of somewhere around \$10-20M would be the right price for retail investors wanting to make a gamble on a struggling company looking to make a profit in the cash back and animation business.

Independent institutional-grade research focused on identifying asymmetric risks in small and micro-cap equities.

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