Zacks Small-Cap Research

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Ken Nagy, CFA

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Sitoa Global (STOA-OTC)

STOA: Sitoa Tracking Ahead of Expectations- Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	05/13/2012
Current Price (05/11/12)	$0.14
Six- Month Target Price	**$1.05**

OUTLOOK

Sitoa Global specializes in providing e-commerce solutions and services that facilitate multi-channel B2C (business-to-consumer) and B2B (business-to-business) transactions. Sitoa formed Sonsi.com with Charming Shoppes, Inc. (NASDAQ: CHRS) which brings together a customer base of plus sized women in an effort to create a social network combined with a focused on-line storefront. The firm has expanded into China and Southeast Asia and changed the business model for B2C in the area. Where in the past foreign companies would have to commit container loads of product in order to sell to the area, now they can put their products on-line and take some of the risk out of the business model.

SUMMARY DATA

52-Week High	**$0.76**
52-Week Low	**$0.04**
One-Year Return (%)	**-80.29**
Beta	**0.51**
Average Daily Volume (sh)	**25,539**
Shares Outstanding (mil)	**26**
Market Capitalization ($mil)	**$4**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**2.8**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Growth**
Industry	**Internet Commer**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2011	0.0 A	0.0 A	263.5 A	583.8 A	847.3 A
2012	813 A	850 E	1,100 E	1,400 E	4,163 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$0.00 A	-$0.02 A	-$0.01 A	$0.00 A	$0.00 A
2011	$0.00 A	-$0.02 A	-$0.03 A	-$0.09 A	-$0.14 A
2012	-$0.01 A	$0.00 E	$0.02 E	$0.03 E	$0.05 E

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WHATS NEW

Upgrade

We are upgrading our recommendation from Neutral to Outperform given the firm has approached breakeven ahead of our expectations, built the top-line, and wisely partnered with firms in growth areas. The firm is well on its way to their intermediate goal of $20 million in sales and 16 partnership sites by 2014. Sitoa currently has five partner sites and is in talks to develop 2 more. Like all start- up firms Sitoa is not without risk. Investors should realize the company has approximately $2.1 million in losses since January of 2011, and may need to raise further capital from investors. A capital raise could dilute current shareholders in the short to medium-term.

The risk remains high but we expect Sitoa to begin producing profitable quarters.

Sitoa Builds the Top-Line Moves Toward Cash Flow Breakeven

On May 9, 2012, Sitoa Global Inc., reported financial results for its first quarter ended March 31, 2012. Sitoa reported mixed results with year over year first quarter revenues lifting off to $812,530 from $0 in revenues for the first quarter 2011.

The jump in revenues was a result of providing hosting and integration services to 4-GS, Ltd., ZBL Cybermarketing, Ltd., i-Media, Ltd., Chunjie365 and Sonsi Inc.

While Sitoa seeks to continue to diversify its revenue sources from current and new customers, 43 percent of the Company's first quarter service revenue was from 4-GS, 17 percent from ZBL Cybermarketing, 14 percent from i-Media, 17 percent from Chunjie365, and 9 percent from Sonsi.

Cost of service for the three months ended March 31, 2012 was $588,100 resulting in gross profit of $224,430 and gross margin of 27.6 percent.

Still, Sitoa's net loss increased to a net loss of $246,445 for the first quarter of fiscal 2012 compared to a net loss of $166,685 during the three months ended March 31, 2011. The increase in net loss was primarily a result of higher general and administrative expenses and stock based compensation in the first quarter ended March 31, 2012 compared to the same period of 2011. General and administrative expense increased to $232,542 during the first quarter 2012 compared to $74,661 in 2011. The increase in general and administrative expense was mainly a result of servicing customers and business development activities.

Stock based compensation expenses increased to $237,500 during the first quarter 2012 compared to $81,250 for the three months ended March 31, 2011. The increase in stock based compensation was mostly due to vesting of share options of Sitoa's former CEO. It should be noted that the stock based compensation is non-recurring and the Company was close to break-even EPS absent this expense.

Sitoa reiterated some important recent developments including recently entering into partnership agreements to develop additional e-commerce solutions with ShopShip2PH and BCLN Golf, Ltd.

ShopShip2PH is an e-commerce site targeting Overseas Foreign Workers (OFW's) from the Philippines that live overseas for employment. The site allows the OFW to purchase products online and then have them shipped directly to the Philippines.

The marketplace will feature competitively priced products, compared to what Philippine based specialty importers can attain them for, that are available outside the Philippines.

Similarly, BCLN Golf, Ltd. www.bclngolf.com enables online sales of BCLN's golf apparel as well as other golf related products from US and European golf specialty companies. BCLN is the 3rd largest golf apparel designer and retailer in Hong Kong and Mainland China with its products being only sold in pro shops located in golf courses throughout both countries.

Based on a weighted average number of basic and fully diluted common shares of 27.393 million, basic and diluted net loss per share resulted in a net loss of $0.01 per share for the first quarter of fiscal 2012. This compared to a basic and diluted net loss per share of $0.02 based on a weighted average number of basic and fully diluted shares of 9.108 million during the three months ended March 31, 2011.

As of March 31, 2012, the Company reported cash and equivalents of $58,557 and a working capital deficit of $425,673. This compared to cash and equivalents of $40,373 and a working capital deficit of $477,511 on December 31, 2011.

Similarly, Operating activities used $1,766 in cash in the three months ended March 31, 2012.

Still, it should be noted that operations were cash flow positive before auditor fees for the Company's 10-K.

Sitoa Adds to its Partnership Sites

On February 13, 2012, Sitoa Global, Inc., announced that it entered into a partnership agreement with BCLN Golf, Ltd (http://www.bclngolf.com/).

Under the new agreement, Sitoa will receive monthly hosting fees and a revenue share in return for the developing and hosting of a marketplace for online sales of BCLN's golf apparel as well as other golf related products from US and European golf specialty companies.

Currently, BCLN is the 3rd largest golf apparel designer and retailer in Hong Kong and Mainland China with its products being only sold in pro shops located in golf courses throughout both countries.

In 2011, analysts estimate that the Chinese golf industry generated revenues of over 3 billion yuan (US$500 million) and project it to grow at over 15% per year over the next five years.

The BCLN marketplace is expected to launch in late spring and represents the fourth marketplace that Sitoa will be directly hosting and managing.

Furthermore, on February 8, 2012, Sitoa announced it entered into a strategic partnership with ShopShip2PH. ShopShip2PH is specifically designed for Overseas Foreign Workers from the Philippines that are living overseas for employment.

Under the partnership, Sitoa will receive monthly hosting fees and revenue share in return for its Focused Social Marketplace platform being utilized to launch an e-commerce marketplace that permits products to be purchased online and then shipped directly to the Philippines.

The marketplace will feature competitively priced products, compared to what Philippine based specialty importers can attain them for, that are available outside the Philippines.

The site has initial commitments for 1,100 products including merchandises from product partners; Fragrancenet.com, Troika (Germany), Philippi (Germany) and Palm Beach Jewelry. What's more, the product lineup for the marketplace is targeted to be over 3,000 by year-end.

Similarly, through Sitoa's partnership with the 2nd largest shipping company in the Philippines, LBC Express (www.lbcexpress.com), LBC will market the ShopShip2PH website to its 2 million Overseas Foreign Worker customers as well as permit them to use membership points to redeem for products bought online through ShopShip2PH.

It should be noted that analysts estimate that approximately 11 percent of the Philippines population or between 8.6 million and 11 million Overseas Foreign Workers are living outside the Philippines resulting in an estimated yearly economic impact of approximately $19 billion in remittances sent back to the Philippines from abroad.

INVESTMENT THESIS

- Sitoa developed and is currently maintaining and hosting Sonsi.com, a focused social marketplace, which has collected a number of online sellers focused on the social community for women sizes 12 and up.

- The Company's Focused Social Marketplace business model incorporates a recurring revenue model through licensing fees and commissions from enterprise marketplace sellers, and been used to build the marketplace platforms for Sears.com and Home Depot.com in the past.

- Sitoa's Chunjie365 has been able to structure strategic relationships with several Chinese market leaders including Alibaba.com's "Alipay" system.

- In the past if a firm wanted to sell to a country like China it would have to put up several containers of product. This has been changed with the on-line marketplace and as a result, the risk has decreased.

- Microsellers tend to be out in front of large retailers and operate on a different economic cycle than their larger brethren.

Sitoa Global Inc., based out of Palo Alto, California, is an e-commerce facilitator that engages in the development, integration and hosting of B2C (business-to-consumer) social e-commerce sites.

The Company specializes in providing e-commerce solutions and services that facilitate multi-channel B2C (business-to-consumer) and B2B (business-to-business) transactions. Sitoa's solutions and services enable e-commerce transactions with speed and efficiency, and allow an interactive and engaging customer experience as well as targeted marketing and advertising. The Company's revenues are generated from one-time integration fees for the implementation of e-commerce solutions as well as recurring license and service fees including revenue share arrangements.

By concentrating on its end to end "Focused Social Marketplace" platform, Sitoa's business model is able to leverage social e-commerce by allowing sellers to generate business through word of mouth to motivated and loyal customers with common interests on a focused social marketplace.

Furthermore, the elements of its Focused Social Marketplace business model incorporate a recurring revenue model through licensing fees and commissions from enterprise marketplace sellers and peer to peer marketplace sellers (microsellers).



Sitoa owns the proprietary technology behind its Focused Social Marketplace platform and that the platform is designed and built to handle hundreds of enterprise and microsellers and tens of thousands of products. The Company has already developed and is currently maintaining and hosting Sonsi.com, a focused social marketplace, which has collected a number of online sellers focused on the social community for women sizes 12 and up.

More recently, Sitoa announced that during its second half of fiscal 2011, it launched its bi-lingual Focused Social Marketplace in China, Chunjie365 (chunjie365.com) and announced it entered into a strategic partnership with ShopShip2PH. ShopShip2PH is specifically designed for Overseas Foreign Workers from the Philippines that are living overseas for employment. Through its partnership with LBC, one of South East Asia's largest shipping companies, Sitoa is able to have items shipped to the Philippines on one low priced shipping carton.

Chunjie365 is a social e-commerce site in China. The site focuses on consumer and corporate online customers looking to purchase rare and unique U.S. specialty products and Chinese gift items. Due to China's ecommerce market's climbing sales and large scope and demographic, Sitoa intends to launch an additional 2 to 3 marketplaces in China within the next eighteen months.

Sitoa's Chunjie365 has been able to structure strategic relationships with several Chinese market leaders including Alibaba.com's "Alipay" system, iMedia's QQ mobile advertising platform and Zibolan's Baidu and Google keywords program.

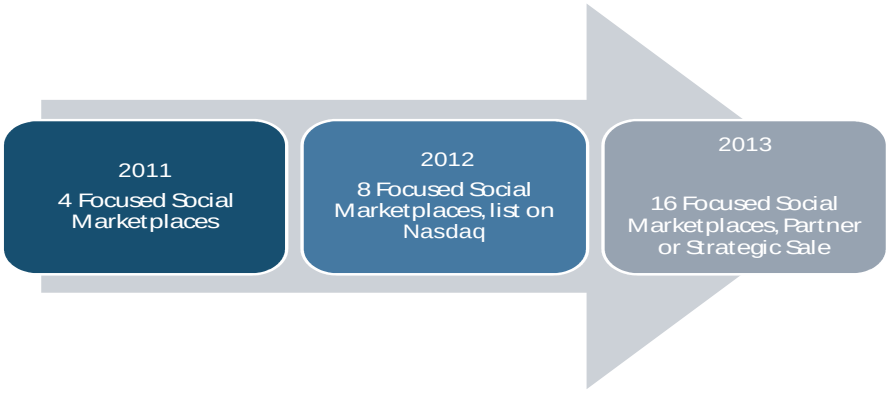
Alibaba is China's largest B2B (Business-to-business) site and owner of China's C2C (Consumer-to-consumer) and B2C (Business-to-consumer) e-commerce leader, Taobao.com.

QQ is China's largest instant messaging platform and Zibolan is China's number one ranked keyword reseller for Baidu and Google.

Similarly, Sitoa appears to have managed some of the higher risk and uncertainty that foreign specialty brands have faced while selling in China where many companies must commit container loads of product into China.

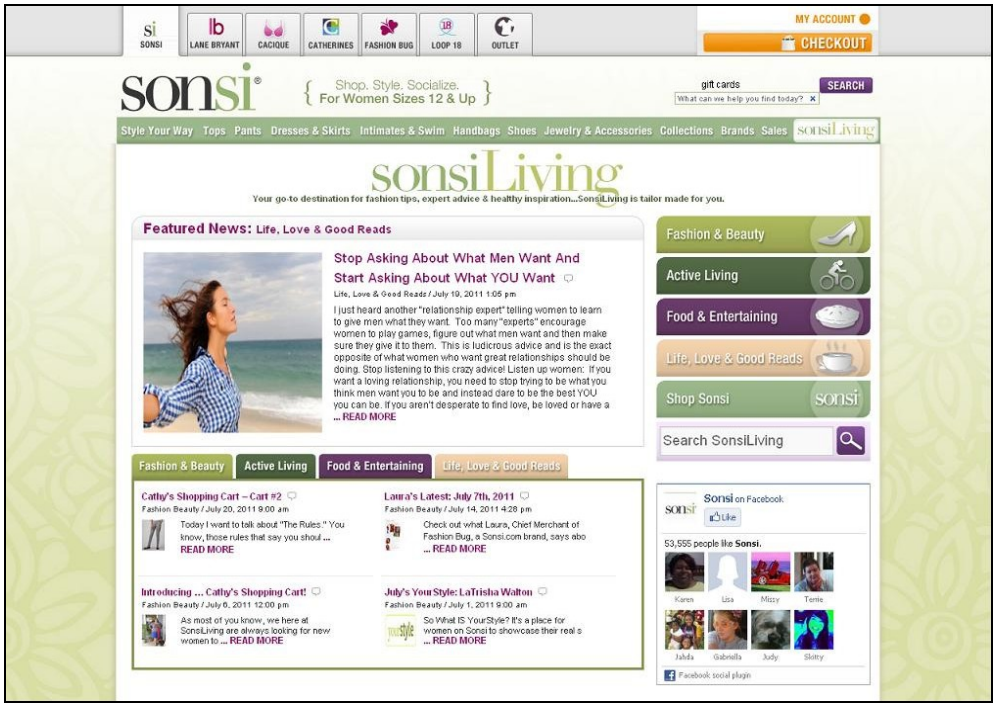
By working with established brands, Sitoa ships smaller quantities of product to Chunjie365's Nanjing China logistics/fulfillment center allowing individual orders to be fulfilled to customers within China in two days or less.

Time Line of Sitoa's Growth Strategy



SONSI

The Company has developed and is currently maintaining and hosting Sonsi.com, a focused social marketplace, which has collected a number of online sellers focused on the social community for women sizes 12 and up. Sonsi is owned by Charming Shoppes, Inc. (NASDAQ: CHRS) which is considered one of the leading edge e-commerce retailers.



The site is an aggregation of dozens of niche boutiques in apparel & accessories along with an integration of social network—blogs, forums, Facebook &Twitter—and focused online storefront.

Business Model

Enterprise Sellers

- Sitoa charges monthly licensing fees
- 20% commission is charged on all sales

Microsellers

- Sitoa charges monthly licensing fees
- 20% commission is charged on all sales

Back Drop of Growth in China

China continues to transform much of its population and economy from poverty to a middle class environment. The urban population has doubled from 302 million in 1990 to 622 million in 2009 and is projected to approach one billion by 2025. There were 40 large cities that had more than one million residents in 2000. That number tripled to 122 in 2008. The Economist Intelligence Unit (EIU) forecasts that there will be more than 200 large cities by 2025. Rapid urbanization calls for an integrated modern transportation system, and China's government has responded with intense investment in infrastructure. According to ChinaView.com, China built six new airports in 2009, bringing the total number to 166 as of last December. Naturally the internet has gone through a modernization as well.

WORLD INTERNET USAGE AND POPULATION STATISTICS						
World Regions	Population (2009 Est.)	Internet Users Dec. 31, 2000	Internet Users Latest Data	Penetration (% Population)	Growth 2000-2009	Users % of Table
Africa	991,002,342	4,514,400	65,903,900	6.70%	1359.90%	3.90%
Asia	3,808,070,503	114,304,000	704,213,930	18.50%	516.10%	42.20%
Europe	803,850,858	105,096,093	402,380,474	50.10%	282.90%	24.20%
Middle East	202,687,005	3,284,800	47,964,146	23.70%	1360.20%	2.90%
North America	340,831,831	108,096,800	251,735,500	73.90%	132.90%	15.10%
Latin America/caribbean	586,662,468	18,068,919	175,834,439	30.00%	873.10%	10.50%
Oceania/Austraila	34,700,201	7,620,480	20,838,019	60.10%	173.40%	1.20%
World Total	**6,767,805,208**	**360,985,492**	**1,668,870,408**	**24.70%**	**362.30%**	**100.00%**

*source: World Internet Stats

In our opinion the internet is still growing and has a relatively low 24.7% penetration rate compared to the population. Especially if one considers Asia which has approximately 56% of the world's population yet remains only 18.5% penetrated. Another trend to consider in assessing the Sitoa growth rate is the explosion of handheld devices such as IPhones. There are in effect more and more devices being connected and each new connection is a new opportunity in the chain.

E-Commerce growth rates are soaring in China. Total e-commerce sales soared 60% year-on-year in the first half of 2010 to $340 billion, according to government figures. On Taobao, China's largest online retail platform, the average number of transactions per user grew by 35% year-on-year, according to data released by Alibaba.com

In September of 2011, Sitoa launched it's first two Asia marketplace platforms. Chunjie365 is a social e-commerce site in China and ShopShipUSA is a Focused Social Marketplace for Philippine based consumers to order foreign products and have them shipped to the Philippines for one price. Within the next eighteen months, Sitoa will launch 2-3 additional marketplaces in the region. By Year-End 2012, it is estimated that there will be four social marketplaces in Asia.

Microsellers are Ahead of the Curve

According to the Kauffman Index of Entrepreneurial Activity, entrepreneurs remained a strength of the U.S. economy amid one of the worst recessions on record. More entrepreneurs launched new businesses in 2009 than at any other time in the past 14 years. This makes sense from a logical standpoint as well. In the simplest of terms when things get rough entrepreneurs tend to take matters in to their own hands. Small businesses tend to lead economic growth, whereas large firms tend to follow it. Among small businesses, very small businesses (VSB), which the California Association for Micro Enterprise Opportunity (CAMEO) defines as 5 or less employees, come into being to meet immediate and local needs or to develop new or emerging markets by using innovation and technology. They tend to make markets. Large businesses tend to shy away from small or unestablished markets. They most frequently do not make investments until they are fairly certain that markets exist, conducting long studies and spending heavily to break into a market that already has been "pioneered" by smaller and bolder ventures.

INDUSTRY OUTLOOK

Our outlook for the non-food - retail/wholesale industry is neutral. This industry is contingent on consumer disposable income, which is critically tied to the employment outlook. There is some debate about the extent to which debt has funded consumer spending over the last few years. Though debt reduction through home refinancings is likely to slow, consumers will continue to have some additional disposable income from lower payments. Consumer debt is high by many measures, though including mortgages may be somewhat misleading, as U.S. home ownership is at an historic high.

Retailers, in general, should benefit from an improving economy and consumer confidence, along with job growth and lower unemployment. Some retail segments will perform better than others. Merchandising has been and will continue to be very important, as consumers are selective in terms of product and price.

Building traffic is a central theme for all retailers. Target, Wal-Mart, and Dollar General are trying to attract customers by offering both groceries and other items in one place.

Inventory management is the other focus for retailers. Expectations are high for new systems (at chains as diverse as Nordstrom, Home Depot, and Dollar General) to provide management with faster and better information regarding what is selling. This impacts markdowns, distribution, re-orders, and new inventory purchases. As the economy improves, earnings for these companies will benefit.

Overall, we believe retailers will perform in-line with the S&P 500.

INDUSTRY POSITION

Sitoa competes with several larger well financed companies

Wal-Mart Stores Inc, the world's largest retailer, recently invested in China's top online seller of consumer electronics and communication products, in a push to extend its reach to more Chinese buyers. Chinese online business-to-consumer (B2C) company 360buy secured $500 million in funding from six strategic partners, including Wal-Mart,

According to data from Analysys International, China's massive e-commerce market is highly fragmented and competitive, where 360buy battles Taobao, a unit of Alibaba Group and E-Commerce China Dangdang Inc for dominance. 360buy had 14.1 percent of China's B2C market in the third quarter, while Dangdang had 3.7 percent.

One notable competitor is BigCommerce. The firm's software allows retailers to setup their own professional online store - Using built-in marketing tools, from places like Facebook, Google, Yahoo, eBay, Shopzilla, iPhones, and iPads. After turning down venture capital for the two years, the software maker raised $15 million in venture capital. This speaks to the viability of the business model.

VALUATION

We feel that Sitoa, through its Asian expansion will continue to drive the top-line toward $20 million and 16 sites. Asian E commerce is in its infancy and is very likely to outgrow the overall industry. In 3 to 5 years management could look to partner or sell the firm.

	Market Cap	Rev (TTM)	NI (TTM)	P/Rev	P/E
Industry Comparables					
Digital River	**628.50**	**398**	**17.2**	**1.57**	**13.7**
EBIX	853.00	169	71	5	13.3
Live Person	911.00	133	12	6.75	34.7
Mecox Lane	71.80	218	-33	0.33	N/A
NetSuite	3.46 (B)	236	-32	14.7	N/A
Dang Dang.com	706.00	574	-36	1.12	N/A
Web.com	663.00	199	-12.5	3.31	7.9

We feel it is helpful to look at the past deals in the space to try to gauge what the market would be willing to pay.

- In November 2010, Art Technology Group was acquired by Oracle for $1 billion. The purchase price was 5X revenues and 70X earnings.

- In March 2011, GSI Commerce was acquired by eBay for $230 million. The purchase price was done at 1.8X revenues. (company had no earnings at the time.)

- In June 2011, eBay acquired Magento Commerce for a valuation of over $100 million

Using a conservative valuation method of 3.0x future sales and a discount of 25% (rather high given the uncertainty of the situation) we value the stock at $1.05.

We view Sitoa as a high risk/ high reward speculative stock. The characteristics of the payoff investors receive could look similar to that of a call option.

RISKS

- The Company has experienced losses since commencement of operations and has negative working capital and a stockholders' deficit as of December 31, 2011, which raise substantial doubt about the Company's ability to continue as a going concern.

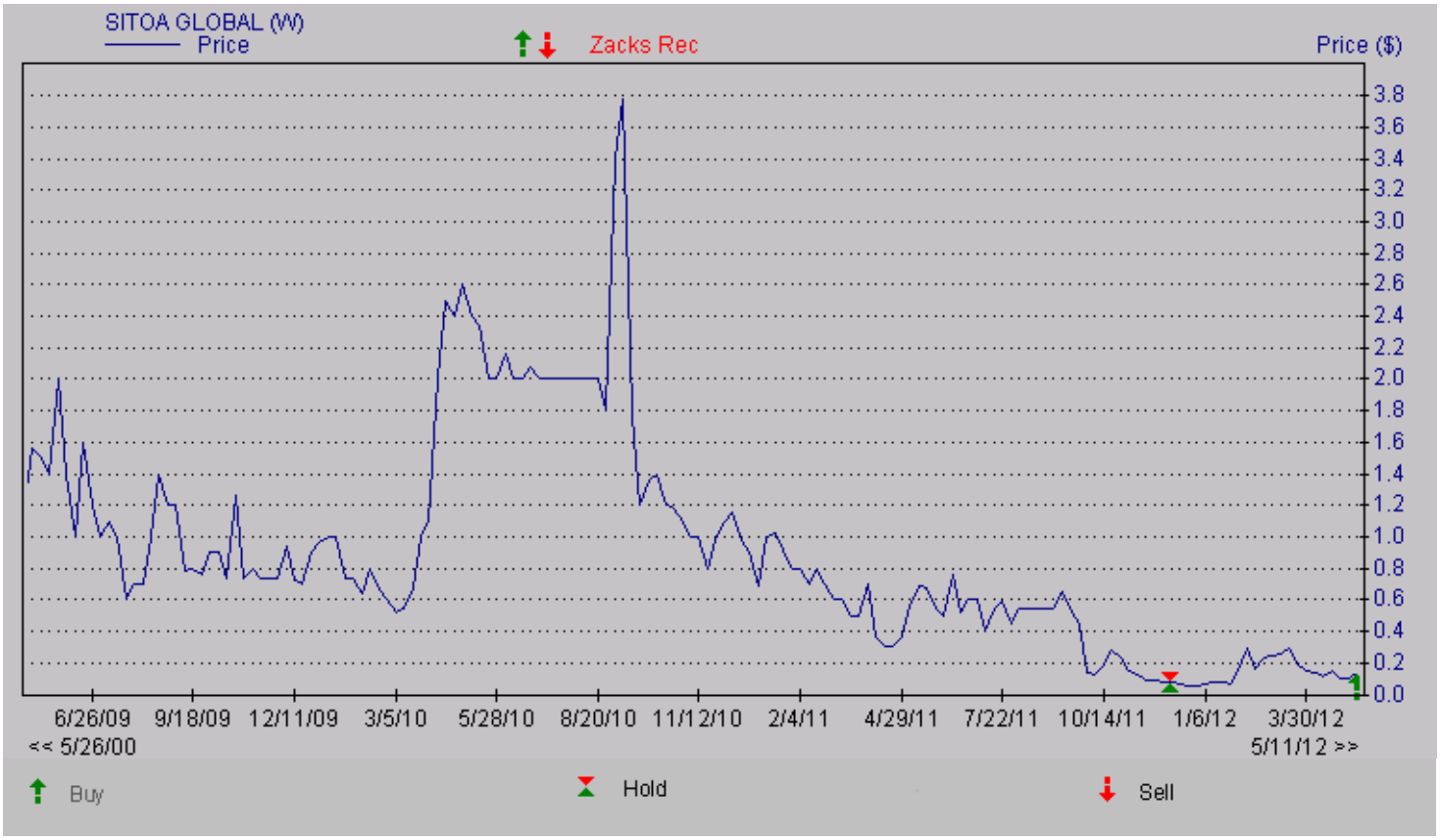
- Sitoa competes against several well financed larger competitors.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Mil)	FY 2010	FY 2011 E	FY 2012 E	FY 2013 E	FY 2014 E
REVENUE					
US Revenue	**0**	**0.13**	**1.05**	**4.00**	**12.00**
China & SE Asia Revenue	**-**	**0.72**	**3.11**	**7.00**	**8.00**
Total Revenue	**-**	**0.85**	**4.16**	**11.00**	**20.00**
Sequential Growth					
OPERATING EXPENSES					
Cost of Revenues	-	0.65	2.00	5.61	5.90
% of Revenue			2%		
Gross Profit -	**-**	**0.20**	**2.25**	**5.39**	**14.10**
Proforma Gross Margin		23.3%	54.1%	49.0%	70.5%
Selling General and Administrative	0.58	1.2	0.8	0.0	0.1
% of Revenue		142.1%	25.7%		
Corp Overhead	-	-	-		
% of Revenue					
GW Amort, Restructuring, other	-	0.9	-	-	-
% of Revenue					
Total Operating Expenses	0.58	2.08	0.80	-	0.10
% of Revenue		245.4%	25.7%	0.0%	1.3%
Operating Income -	**(0.58)**	**(1.88)**	**1.45**	**5.39**	**14.00**
Operating Margin		-261%	47%		
NON-OPERATING ITEMS					
Non operating Income/Expense	0.0	-0.02	-	-	-
% of Revenue		-2.13%	0.00%	0.00%	0.00%
Tax Provision	0.00	0.00	0.00	0.00	0.00
Effective Tax Rate	0%	0%	0%	0%	0%
Net Income -	**(0.58)**	**(1.90)**	**1.45**	**5.39**	**14.00**
Net Income Margin		-263.0%	46.6%	77.0%	175.0%
EARNINGS PER SHARE					
EPS - Basic	-$0.06	-$0.14	$0.05	$0.22	$0.58
EPS - Diluted	-$0.06	-$0.14	$0.05	$0.22	$0.58

Ken Nagy, CFA Zacks Investment Research

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