Zacks Small-Cap Research

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Pareteum Corp (TEUM-AMEX)

TEUM: Vodafone Now Marketing Pareteum's MVNO Platform Worldwide

TEUM stock is trading at 3xs its projected Q4 2016 run rate and an EV of $34.5 million. Using a combination of EV to sales and multiple of EBITDA the stock could be worth $0.27 a year from now.

Current Price (12/20/16)	$0.13
Valuation	**$0.27**

OUTLOOK

Pareteum Corp., a provider of virtualized mobile platforms (ET Software DNA 2.0) for MNOs and MVNO operators worldwide is recovering from the loss of its 2nd largest customer. Its new Chairman, a telecom turnaround specialist, is has just completed the major aspects of restructuring of the business by completing a sale of ValidSoft, writing off intangibles and rightsizing the business, which now makes the company cash flow neutral. The company is in the process of raising funds and signing up new customers.

SUMMARY DATA

52-Week High	**$0.29**
52-Week Low	**$0.10**
One-Year Return (%)	**-56.6**
Beta	**0.04**
Average Daily Volume (sh)	**360,885**
Shares Outstanding (mil)	**180**
Market Capitalization ($mil)	**$19**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**38**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-8.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**0**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/M**
P/E using 2017 Estimate	**13.0**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**N/A**
Industry	**Internet Software**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	5.4 A	5.1 A	4.4 A	5.4 A	20.4 A
2015	5.0 A	19.2 A	3.5 A	3.3A	31.0 A
2016	3.3 A	3.3 A	3.2 A	3.0 E	12.7 E
2017					16.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.04 A	-$0.04 A	-$0.04 A	-$0.01 A	-$0.15 A
2015	-$0.04 A	$0.07 A	-$0.02 A	-$0.02 A	-$0.01 A
2016	-$0.02 A	-$0.01 A	-$0.03 A	$0.00 E	-$0.05 E
2017					$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years %	**20**

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KEY POINTS

- The new renamed Pareteum has just emerged as a completely restructured, EBITDA positive entity. It should be viewed as a technology start up with a $12 million revenue run rate, considerable invested software development expense, and a seasoned, but new management team.

- The company's main problem is lack of cash and an inability to borrow any further. It needs to raise $6 to $8 million near term for working capital combined with a renegotiation of its short term debt to a long term solution. This capital raise will dilute current equity holders.

- The large majority of Pareteum's revenues is supported by its long relationship with Vodafone Spain and should keep the company above water. It has plans in place to grow its current business 25% next year off its $12 million Q4 2016 run rate and already has three new customers signed. It has great prospects through Vodafone Enabler to capture customers requiring global roaming.

- Its cloud-based platform provides a leading edge solution for MVNOs and MVNEs who wish to create innovative products to sell to enterprises as well as consumers. It allows providers to seamless move traffic from carrier to carrier via software and takes advantage of multiple carriers in a geography without the user even knowing. This software defined network (SDN) solution is enjoying increasing adoption worldwide as it provides greater flexibility and lower costs than traditional legacy networks.

- The company trades at a market value of $28.6 (using 220 million fully diluted shares) or an enterprise value of $34.5 million. This is approximately 3 times its current revenue run rate.

RECENT NEWS

On December 21, 2016, Pareteum Corporation announced it has secured an extension of its existing MVNE relationship with Vodafone Enabler S.L. (VEE) and expects it first MVNO customer rollout through Vodafone Enabler during the first quarter of 2017. Vodafone Enabler is a group out of Vodafone Spain that is taking MNVO service offerings to all the Vodafone companies throughout the world. By using the Pareteum platform, and working with Vodafone Roaming, it can offer customers a turnkey service offering that allows seamless global roaming. So now any Vodafone company, based in any country, can offer its customers a product that gives its users communication services anywhere on the globe. This first announced customer, who will port over to Pareteum in Q1, is a current enterprise customer of Vodafone. Its has operations all over the world and has an extremely mobile employee and customer base and can use the Pareteum cloud based global platform to cut costs for employees and offer innovative services to customers. We believe in Q1 Vodafone could make an announcement as to who this customer is, and what services it is providing. With this reference customer, Pareteum should be able to market to others in this industry as well as companies in industries such as shipping, logistics, and IoT all of whom have global mobility as a common denominator.

On December 7, 2016, Pareteum announced that a new start up customer, SOL Mobile, (www.solmobile.co) would be using the company's Global Mobility cloud platform. It is a cloud-based solution product offering that allows service providers and MVNOs to connect directly through the cloud to the Pareteum platform for SIM connectivity, voice, SMS messaging, and roaming solutions. SOL Mobile is a provider of roaming and MVNO services in the UK and India, and will be porting its subscriber base to the Pareteum platform starting next month. It should take two months to get them moved over. Sol Mobile was founded in June 2015, now has approximately 30,000 subscribers, and is growing rapidly. Sol will be moving to Pareteum from Limitless Mobile based in Denmark.

VALUATION

While there are many MVNEs worldwide, many are private. Those that are public are all small except for Amdocs (DOX) a $7.9 billion company and Ericsson (ERIC) at $24.5 billion. On average they trade at 1.7 times enterprise value to sales. They also trade at an average of 11.4x enterprise value to EBITDA. The company believes in future quarters it can get back to its past EBITDA of $2.3 million per quarter. If it can, then the company could get to an enterprise value of $104 million. Working back to market value then the stock would be worth $0.46 a share. Using the EV/Sales average of 1.7X and using 2017 revenues yields only $0.08 per share. Taking an average of the two, we get a price of $0.27 by 2017.

However more importantly, as the company moves completely to a cloud-based SaaS provider, its should present much higher margins and thus will be compared to an entirely different list of SaaS vendors which trade at an average multiple more than twice this group.

	Ticker	Revenue		EBIDTA		Enterprise Value / Sales		Included
Company		2016E	LTM	Margin	EV/TTM EBIDTA	2016E	LTM	in Average?
Amdocs	DOX	$3,753	$3,720	19%	11.4x	2.1x	2.1x	y
Redknee Solutions	RKN.TO	$164	$171	4%	-23.5x	0.9x	0.9x	y
CSG Systems	CSGS	$759	$763	22%	9.9x	2.2x	2.2x	y
MER Telemanagement Sol	MTSL	NA	$14	5%	7.3x	NA	0.4x	n
Ericsson	ERIC	$24,520	$24,540	0%	5.5x	0.7x	0.7x	n
Average				**15%**	11.4x	**1.7x**	**1.7x**	

Revenue		EBITDA	Enterprise Value / Sales		Valuation Range	
2017E	2016E	Margin	2017E	2016E	Low	High
$16	**$13**	**-8%**	**1.7x**	**1.7x**	**$22**	**$28**

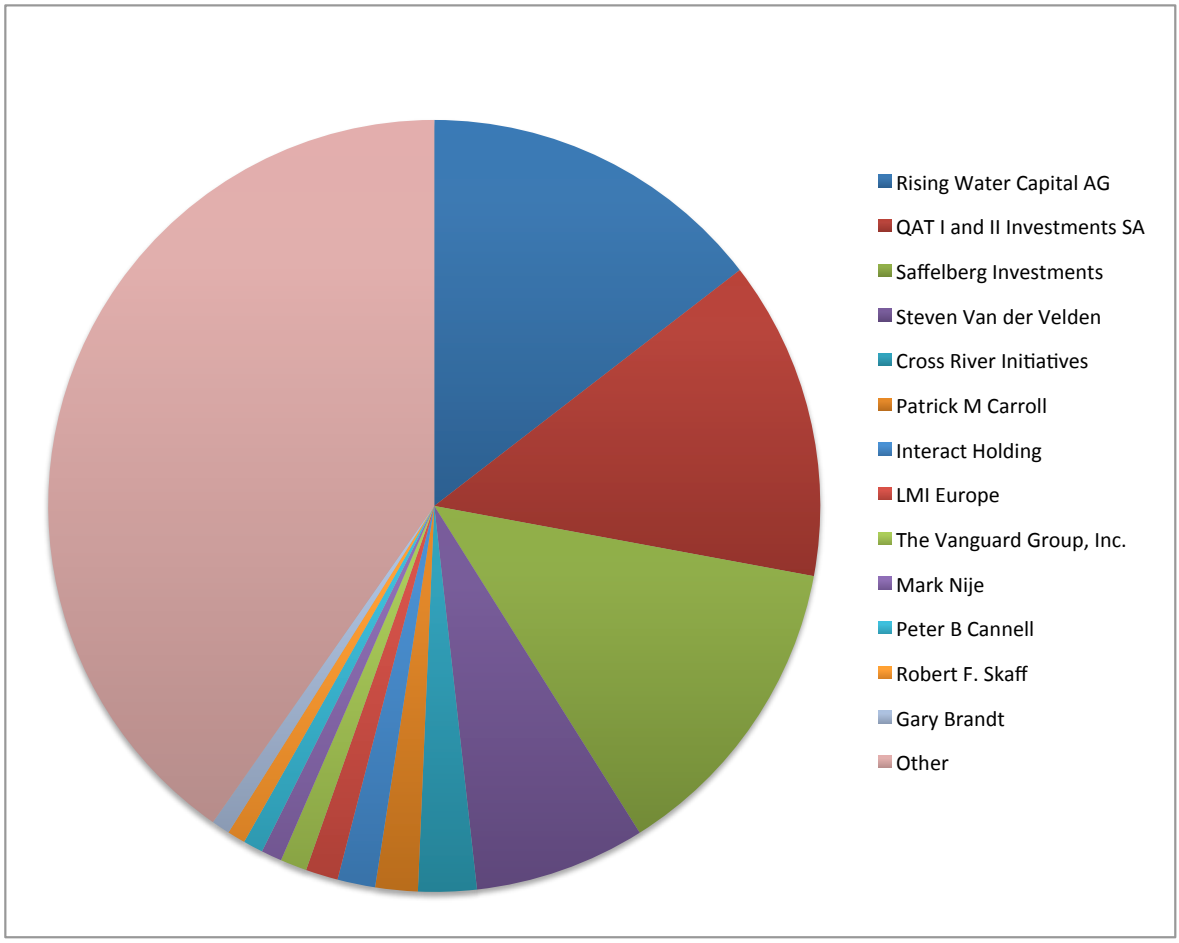
Conclusion of Enterprise Value	**$25,036,544**	**$104,788,000**	
Market Value**	**$17,964,844**	**$99,388,000**	
Fully diluted	224,478,106	224,478,106	
Price per Share	**$0.08**	**$0.47**	**$0.27**

RISKS

- Steven Van der Velden, who was Chairman, CEO, and President, and is the majority shareholder of the company, resigned as of November 16, 2015. A turnaround team then took over and restructured the company completely. On November 1, 2016, Vic Bozzo formerly SVP of Sales and Marketing at Telarix, was hired as permanent CEO. There is no assurance he will be successful in his new role.
- The majority of the revenues are from one customer Vodafone Spain; 88.9% of revenues in Q3 were from the top two customers. Revenues from Europe were 92.5% of Q3's total revenues.
- There is currency risk as most of the company's operations are in Euros.
- The company was given a going concern opinion by its auditors because of it negative cash flow since it lost its contract with Iusacell. The company needs to raise $6-8 million more cash to maintain operations and pay off current debt. It is currently in a liquidity squeeze and has been using common stock as currency.

INSIDER TRADING AND OWNERSHIP

There are 180 million shares outstanding as of October 31, 2016. We believe Steven van der Velden, former Chairman and CEO, owns approximately 31.5% of QAT, which owns 51.3% of the outstanding capital stock of Rising Water Capital. These three combined own 35% of the total outstanding.



PROJECTED INCOME STATEMENT

Pareteum Corporation	Q1 2015 31-Mar	Q2 2015 30-Jun	Q3 2015 30-Sep	Q4 2015 31-Dec	Q1 2016 31-Mar	Q2 2016 30-Jun	Q3 2016 30-Sep	Q4 2016E 31-Dec	2015	2016E	2017E
Total GAAP revenue	**5.0**	**19.2**	**3.5**	**3.3**	**3.3**	**3.3**	**3.2**	**3.0**	**31.0**	**12.7**	**16.0**
Yr-to-yr Growth	-7%	279%	-22%	-40%	-35%	-83%	-9%	-8%	52.4%	-59.0%	25.9%
Cost of services	1.9	1.4	1.4	1.3	1.1	1.0	0.9	0.8	5.9	3.7	4.3
Gross profit	3.1	17.8	2.1	2.0	2.1	2.3	2.3	2.3	25.1	9.0	11.7
Gross Margin	62.7%	92.5%	60.9%	61.6%	65.6%	70.0%	71.9%	75.0%	80.9%	70.5%	73.0%
Operating expenses:											
Product Development	1.0	1.5	1.0	1.0	1.3	0.81	0.7	0.4	4.5	3.2	1.6
Sales and Marketing	0.7	0.3	0.6	1.0	0.5	0.3	0.2	0.2	2.6	1.3	0.8
G&A	3.0	2.7	2.5	2.3	2.9	2.0	2.8	1.7	11.7	9.2	6.6
Depreciation and Amortization	1.7	1.7	1.8	1.4	1.1	1.1	1.1	0.5	6.6	3.8	2.0
Restructuring charge	0.0	0.0	0.0	1.3	0.6	0.2	3.8	0.1	1.3	4.7	0.0
Impairment for assets held and used	0.0	0.9	0.0	1.7	0.0	0.0	0.9	0.0	2.7	0.9	0.0
Loss on sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0		1.7	0.0
Total operating expenses	6.4	7.2	5.9	8.6	6.4	4.5	11.1	2.9	29.4	24.8	11.0
Operating income:	(3.3)	10.6	(3.8)	(6.6)	(4.3)	(2.2)	(8.8)	(0.6)	(4.3)	(15.9)	0.7
Operating margin	-65.1%	55.2%	-109.4%	-201.6%	-130.6%	-66.3%	-278.7%	-20.0%	-13.9%	-124.9%	4.3%
Other income:											
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.1	0.1	-
Interest expense	(0.4)	(0.6)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(1.5)	(1.1)	(0.2)
Int exp. For debt discount & converstion feature	(0.1)	(0.4)	(0.1)	(0.1)	(0.4)	(0.3)	(2.3)	(2.3)	(0.7)	(5.3)	-
Change in fair value of conversion feature	-	-	-	0.3	0.5		-	-	0.3	0.5	-
Change in fair value of warrant liabilities	0.2	0.1	-	(0.4)	-	0.1	(0.7)	-	-	(0.6)	-
Loss on extinquishment of debt	2.5	-	-	-	-	-	(0.4)	-	2.5	(0.4)	-
Other income	(1.2)	0.2	0.1	0.0	0.2	(0.1)	0.1	-	(0.9)	0.2	-
Amortization of deferred financing costs	(0.1)	(0.4)	(0.0)	(0.0)	(0.1)	(0.1)	(0.6)	(0.6)	(0.5)	(1.4)	-
Total other income	1.1	(1.0)	(0.3)	(0.5)	(0.0)	(0.6)	(4.2)	(0.3)	(0.7)	(8.0)	(0.2)
Income before income taxes	(2.2)	9.6	(4.1)	(7.1)	(4.3)	(2.8)	(13.0)	(0.9)	(5.0)	(23.9)	0.5
Provision for income tax	(0.1)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Tax rate	3%	1%	0%	0%	0%	0%	0%	-1%	0.0%	0.0%	0.0%
Net income	(2.1)	9.5	(4.2)	(7.0)	(4.3)	(2.8)	(13.0)	(0.9)	(5.0)	(23.9)	0.5
Preferred dividend @ 9% interest	-	-	-	-	-	-	0.0	0.0		0.0	
Net income to common shareholders	(2.1)	9.5	(4.2)	(7.0)	(4.3)	(2.8)	(13.0)	(0.9)	-	(21.1)	
Currency translation	(1.7)	0.5	-	(1.5)	0.3	(0.3)	(0.4)	-	(2.7)	(0.4)	-
Comprehensive loss	(3.8)	10.0	(4.2)	(8.5)	(4.0)	(3.2)	(12.6)	(0.9)	(7.7)	(24.4)	0.5
Stk based compensation	0.8	0.8	0.9	1.0	0.9	1.3	2.1	1.5	3.5	2.7	2.7
One-time expenses	(2.5)	(15.3)	(0.2)	3.0	0.6	0.2	6.4	0.1	3.9	-	-
Non-GAAP Income	(5.5)	10.3	(3.2)	(3.1)	(2.7)	(1.5)	(4.6)	0.6	(1.6)	(8.2)	3.2
Yr-over-Yr				-701%					-92.5%	NM	NM
Net income per share:											
Basic	**(0.01)**	**0.06**	**(0.03)**	**(0.04)**	**(0.03)**	**(0.02)**	**(0.08)**	**(0.00)**	**(0.03)**	**(0.13)**	**0.00**
Diluted	(0.01)	0.04	(0.02)	(0.03)	(0.02)	(0.01)	(0.06)	(0.00)	(0.02)	(0.11)	0.00
Non-GAAP Primary	**(0.04)**	**0.07**	**(0.02)**	**(0.02)**	**(0.02)**	**(0.01)**	**(0.03)**	**0.00**	**(0.01)**	**(0.05)**	**0.01**
				90%	-47%	-116%	37%	-120%			
Shares											
Primary Shares Outstanding	154.9	156.4	160.2	161.6	162.9	163.6	165.7	180.0	158.2	168.1	180.0
Yr-over-Yr	9.2%	6.8%	7.2%	6.6%	5.2%	4.6%	3.5%	11.4%	7.1%	6.2%	7.1%
All In Shares	226.8	226.9	216.1	214.7	212.5	204.3	224.5	224.5	221.1	216.4	224.5
Yr-over-Yr				-4.4%	-6.3%	-10.0%	3.9%	4.6%	48.2%	-2.1%	3.7%
Adjusted EBITDA	2.30	2.19	(1.21)	(1.29)	(2.37)	(0.85)	(1.35)	-	1.99	(4.57)	2.68
Cap EX	1.51	2.60	2.61	0.98	0.77	0.56	1.38	0.70	7.71	3.41	2.65

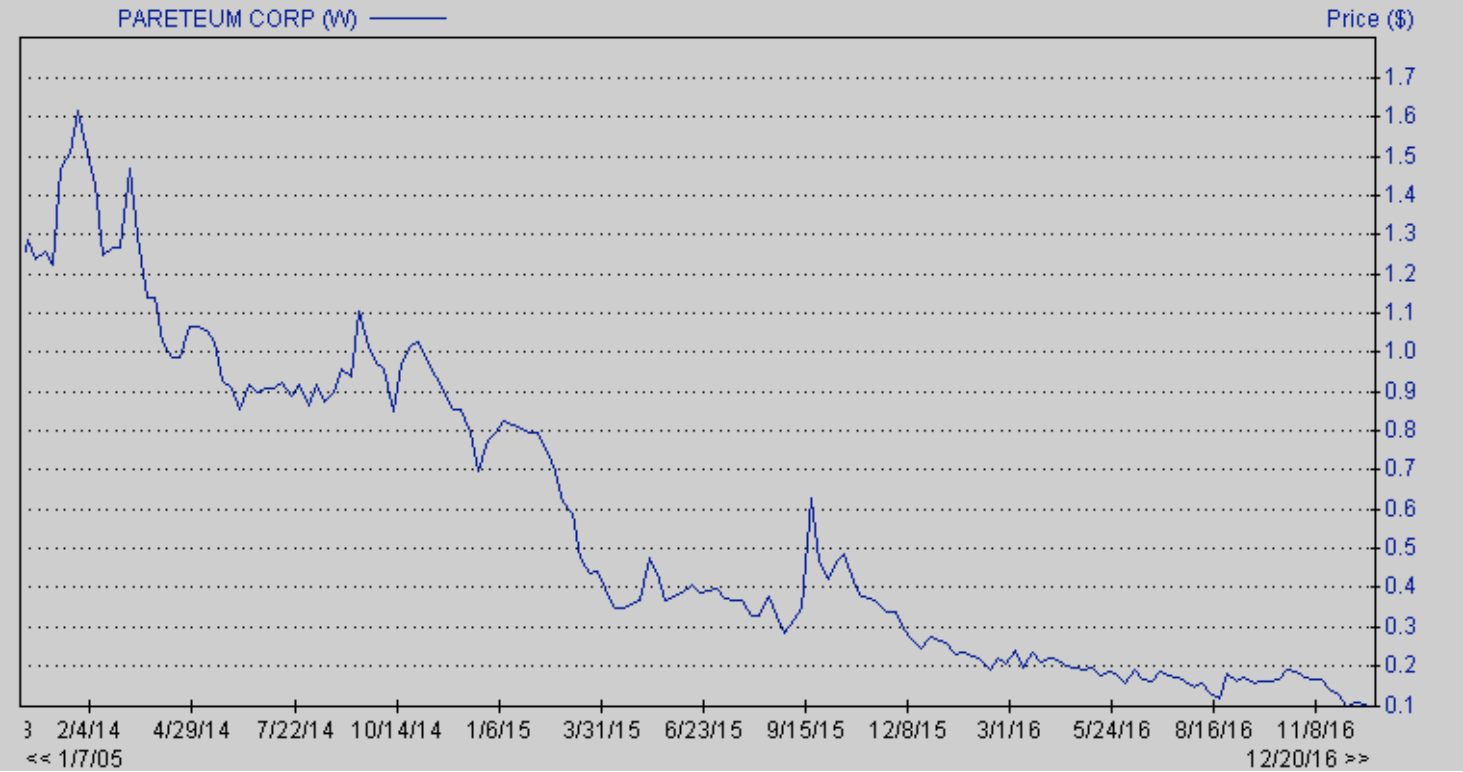
QUARTERLY CASH FLOW

	31-Mar-15	30-Jun-15	30-Sep-15	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16
CASH FLOWS FROM OPERATING ACTIVITIES:							
Net loss	(2,125,173)	9,521,918	(4,156,337)	(8,246,643)	(4,313,790)	(2,823,231)	(13,038,301)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:							
Depreciation and amortization	1,746,147	1,745,034	1,781,478	1,351,326	1,097,604	1,113,947	1,108,553
Provision for doubtful accounts	8,184	17,230	(25,414)	269,608	-	(279,740)	279,740
Stock based compensation	831,813	752,510	937,101	960,484	944,024	362,107	796,309
Change in fair value of warrant liability	(246,702)	(149,203)	-	95,957	(518,986)	(140,950)	735,902
Amortization of deferred financing costs	62,502	362,845	41,224	46,986	136,929	145,366	568,246
Interest expense relating to debt discount and conversion feature	63,972	403,679	125,086	89,652	351,799	261,345	2,319,679
Other income	-	-	-	-	(221,640)	109,080	(101,328)
Extinguishment of Debt	(2,475,799)	-	4,951,598	(4,951,598)	-	-	443,426
Impairments for assets held and used	-	937,835	-	1,743,572	-	-	850,985
Impairment of goodwill	-	-	-	-	-	-	3,228,930
Loss on sale of assets	-	-	-	-	-	-	1,746,905
Changes in operating assets and liabilities:							
Decrease (increase) in accounts receivable	(5,983,834)	10,289,300	994,422	1,266,611	35,624	632,975	118,007
Decrease (increase) in prepaid expenses, deposits and other assets	489,564	610,503	(112,891)	(227,901)	59,993	617,022	572,248
Increase (decrease) in accounts payable and customer deposits	626,729	1,401,175	(207,308)	807,149	571,047	77,819	59,386
Increase (decrease) in deferred revenue	2,981,659	(11,871,208)	17,896,808	(18,760,484)	(136,050)	(151,196)	(422,650)
Increase (decrease) in accrued expenses and other payables	296,266	(1,037,134)	(447,693)	2,574,336	78,570	618,319	(352,321)
Net cash provided by (used in) operating activities	(3,477,188)	13,773,018	25,267,290	(31,682,329)	(1,914,876)	542,863	(1,086,284)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of property and equipment	**(1,511,179)**	**(2,602,129)**	**(2,612,460)**	**(984,204)**	**(765,955)**	**(563,656)**	**(52,516)**
Advance purchase payment on 'Assets held for sale"	-	-	-	-	-	-	450,000
Proceeds from sale of assets	-	-	-	-	-	-	2,000,000
Net cash used in investing activities	(1,511,179)	(2,602,129)	(2,612,460)	(984,204)	(765,955)	(563,656)	2,397,484
CASH FLOWS FROM FINANCING ACTIVITIES:							
Financing related fees	-	(67,445)	(83,223)	150,668	-	(445,249)	(982,718)
Financing receivable	2,000,000	-	0	(355,000)	355,000	-	-
Exercise of warrants and options	5,861	-	0	-	-	-	-
Equity and debt issuance costs paid			0	(532,558)	(360,249)	360,249	-
Principal payment on 2014 10% LIBOR 3rd Party Loan		(9,927,333)	4,427,333	-	(85,000)	(330,098)	(466,711)
Proceed from 9% Unsecured Sub Convertible Note	-	-	-	1,275,000	2,273,000	-	-
Unsecured promissory note							350,000
Gross proceed from Preferred A shares issuance							1,490,000
Advance subordinated short term loan					-	350,000	(350,000)
Advanced payment on "Assets held for sale"					450,000	-	(450,000)
Net cash provided by financing activities	2,005,861	(9,994,778)	4,344,110	538,110	2,632,751	(65,098)	(409,429)
		-					
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1,129,253	5,507	(834,462)	1,626	85,339	(83,422)	(161,861)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,853,253)	2,524,888	26,164,478	(32,126,797)	37,259	(169,313)	739,910
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,176,650	994,693	1,232,525	858,911	369,250	406,509	237,196
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	994,693	1,232,525	858,911	369,250	406,509	237,196	977,106
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:							
Cash paid during the period for interest	359,521	506,911	269,589	(237,322)	233,864	233,864	218,668
Cash paid during the period for income taxes	14,246	235	290	55	-	-	-

BALANCE SHEET

	Sept 30, 2016	June 30, 2016	% Change
CURRENT ASSETS			
Cash and cash equivalents	**$977,106**	**$237,196**	312%
Restricted cash	**751,125**	**247,361**	204%
Accounts receivable	633,322	739,496	-14%
Prepaid expenses and other current assets	1,102,532	1,100,319	0%
Total current assets	3,464,085	2,324,372	49%
NON-CURRENT ASSETS			
OTHER ASSETS	1,174,990	399,664	194%
PROPERTY AND EQUIPMENT, NET	10,625,429	11,959,974	-11%
INTANGIBLE ASSETS, NET	0	162,741	-100%
ASSETS HELD FOR SALE	0	4,577,908	-100%
GOODWILL	0	3,079,090	-100%
TOTAL ASSETS	15,264,504	22,503,749	-32%
CURRENT LIABILITIES			
Accounts payable and customer deposits	3,374,877	3,185,671	6%
Obligations under capital leases (current portion)	37,232	95,616	-61%
Deferred Revenue	589,480	1,007,313	-41%
Change in deferred revenues	**(417,833)**	**(300,037)**	39%
Accrued expenses and other payables	5,943,734	5,232,295	14%
Advanced payment on "Assets held for Sale"	0	700,000	-100%
9% Unsecured Sub Convert Promissory Note	**327,800**		
2014 10% + libor 3rd Party Loan	**5,854,020**	**5,453,632**	7%
Total current liabilities	16,127,143	15,674,527	3%
LONG TERM LIABILITIES			
Derivative Liabilities	3,337,077	1,831,312	82%
Non-current portion of deferred revenue	1,081,139	1,072,105	1%
Other long term liabilities	221,339	234,642	-6%
9% Sub Conv Promissory Note	**903,054**	**1,155,264**	-22%
Total long term liabilities	5,542,609	4,293,323	29%
Total liabilities	21,669,752	19,967,850	9%
Commitments and Contingencies (See Notes)			
STOCKHOLDERS' EQUITY			
Preferred Stock	1,360,571	0	NM
Common Stock	273,407,563	271,096,128	1%
Accumulated other comprehensive income (loss)	(5,368,884)	(5,794,239)	-7%
Accumulated deficit	(275,810,853)	(262,772,552)	5%
Pareteum Corp. stockholders' equity	(6,411,603)	2,529,337	-353%
NON-CONTROLLING INTEREST	6,355	6,562	-3%
Total stockholders' equity	(6,405,248)	2,535,899	-353%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$15,264,504	$22,503,749	-32%
Current and Quick Ratio	0.2	0.1	45%
Working Capital	(12,663,058)	(13,350,155)	-5%
Total Debt	7,084,874	7,308,896	-3%
TD/TA	46%	32%	43%

HISTORICAL STOCK PRICE



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