Zacks Small-Cap Research

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Tapinator Inc. (TAPM-OTC)

TAPM: Zacks Company Report – A Q1 Beat and Progress on Social Casino Shows the Strategy Works

Given its GAAP losses, we believe TAPM should be valued by EBITDA. Using the industry average of 17.5 times EV to trailing EBITDA, by 2017 we expect TAPM stock to be worth $0.50 per share.

Current Price (05/05/16)	$0.24
Valuation	**$0.40**

OUTLOOK

Tapinator continues to grow rapidly and in 2016 will accelerate its efforts with the launch of a number of high profile games: ***ROCKY*** based on the movie, the follow on to its biggest hit yet--- ***Big Sport Fishing 2*** and ***Combo Quest 2***, this time as a freemium version. These particular launches, in combination with its usual strategy and further penetration of the social casino market, could propel the company over $4 million in sales this year. With the ability to generate positive 22%+ EBITDA margins, the company could reach a stock price of $0.30 this year and $0.50 by 2017.

SUMMARY DATA

52-Week High	**$0.54**
52-Week Low	**$0.16**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**39,658**
Shares Outstanding (mil)	**57**
Market Capitalization ($mil)	**$13.7**
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 2016 Estimate	**-5.5**
P/E using 2017 Estimate	**-22.0**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**N/A**
Industry	**Internet-Software**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	0.1 A	0.2 A	0.3 A	0.4 A	0.6 A
2015	0.4 A	0.6 A	0.7 A	0.7 A	2.4 A
2016	0.8 A	0.9 E	1.2 E	1.3 E	4.3 E
2017					6.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	$0.00 A	$0.00 A	$0.00 A	$0.00 A	$0.00 A
2015	$0.00 A	-$0.09 A	-$0.01 A	-$0.00 A	-$0.01 A
2016	-$0.01 A	-$0.01 E	-$0.01 E	-$0.01 E	-$0.02 E
2017					$0.00 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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KEY POINTS

- For the quarter ending March 31, 2016, Tapinator reported revenues of $849,000 million versus $412,000 a year ago, up 106%. EPS was reported as loss of $0.01, both on a GAAP and non-GAAP basis versus breakeven a year ago. However, the company achieved adjusted EBITDA of $221,000 versus $112,000 last year and paid cash interest of $44,800 and taxes of $4,375.

- The company introduced 28 new games in Q1 2016. This brought its owned and operated portfolio to 214 active titles by quarter end. To date, 51 titles have reached 1 million downloads and no single title has contributed more than 12% of revenues.

- Its biggest opportunity this year is ***ROCKY* to be launched in June** in coordination with MGM and the 40th anniversary of the original movie and it should benefit from the *Creed 2* movie in 2017.

- It is showing success penetrating the lucrative social (non-betting) casino games market. It launched Video Poker Classic, its second casino game, early in Q2 and is on track to launch a third later in Q2.

- The company is currently valued at a fully diluted enterprise value of $15 million. We believe EBITDA in 2016 could be as high as $1 million. Using an industry average of 17.5 EV/EBITDA, the stock would be worth $0.30 per share, and by looking at 2017 EBITDA estimates, that price could increase to $0.50, more than double today's price.

Q1 2016 RESULTS

Tapinator reported Q1 2016 revenue of $849,000, up 106% over Q1 2015, and up 23% sequentially Q4 2015. Adjusted **EBITDA was $221,000** versus $112,000 in Q1 2105. The company finds that many of its legacy games have long tails and got only about 17% of revenue in the quarter from products launched in the quarter. It believe that based on new games building on old, that revenues should be up sequentially each quarter for the foreseeable future.

The company made an operating profit of $7,000 versus a profit of $62,000 a year ago but it reported debt discount amortization from the converts of $324,000 and interest expense of $81,000 resulting in a net loss of $398,000 million versus a profit of $9,000 last year. Loss per share was reported as $0.01 versus breakeven last year.

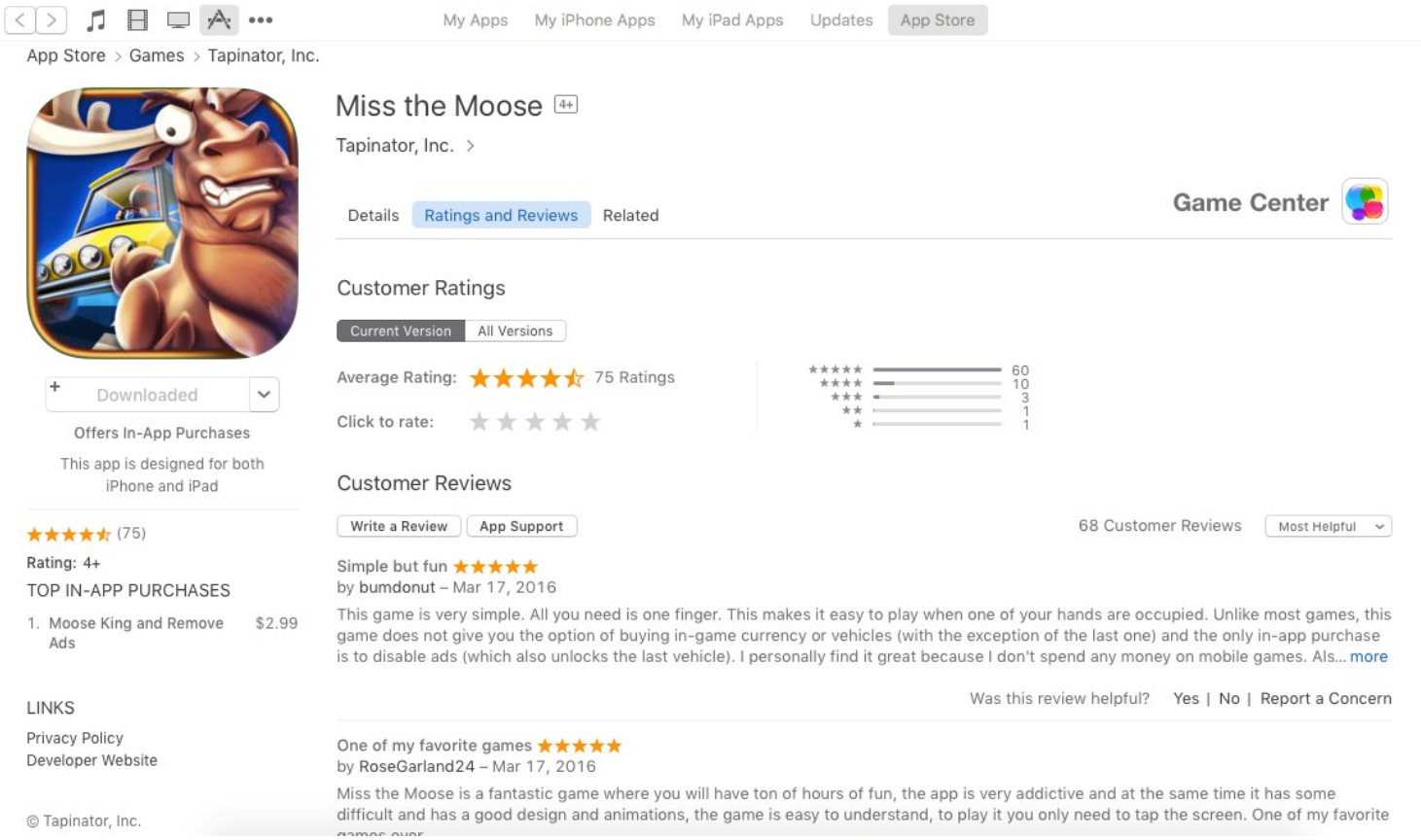
Liquidity and Balance Sheet

Tapinator's cash balance remained at $1.49 million and the end of Q1 the same as Q4 2015. In June 2015, the company raised $2.0 million through the issuance of a $2.24 million 8% senior convertible note due January 1, 2017 (convertible at $0.205), with five-year warrants to purchase 10.9 million shares and five-year callable warrants to purchase 10.9 million shares (exercise price of $0.30). The note is convertible into 10.9 million shares and total warrants outstanding could add 29.1 million additional shares. Given that the company is cash flow positive and has sufficient cash, we believe that management plans to pay back the debt rather suffer dilution from conversion.

Q1 2016 Games

While the fast track business launched 27 new games again in Q1, the full-featured business was less active with only *Miss the Moose* launching late in Q1. It is a quick-fix arcade style game and was

featured as a “Best New Game” in Apple’s App store and has been doing well with a five star rating from 75 players. It is simple and addictive and consists only of a car driving around a track that can speed up to miss hitting a moose running by.



GAMES

Tapinator continues to invest in new game development. The company introduced 28 new games during the first quarter. This brought its owned and operated portfolio to 214 mobile gaming titles. These games have reached over 210 million cumulative downloads to-date. At the end of Q1 2016, 51 titles had reached the one million download mark. To date no game has been responsible for over 12% of revenues, and the company has not suffered the boom bust of other hits driven businesses.

Tapinator’s rising traction with gamers is reflected in its user metrics and growing base of user downloads, we believe. Tapinator’s cumulative downloads of 210 million, up 224% from the previous year. Average monthly active users of 11.7 million increased 154% year over year and up 33% sequentially recovering from a sequentially down Q4.

Q1 2016 Metrics

	Q1 2016	Q4 2015	Y/Y %	Q/Q %	Q3 2015
Average DAUs	0.742	0.532	174%	39%	0.591
Average MAUs	11.7	8.8	154%	33%	10.2
Average New Daily Downloads	0.476	0.338	159%	41%	0.424
Cumulative Downloads	210	166	224%	27%	135
Cumulative Game Titles	214	153	128%	40%	153

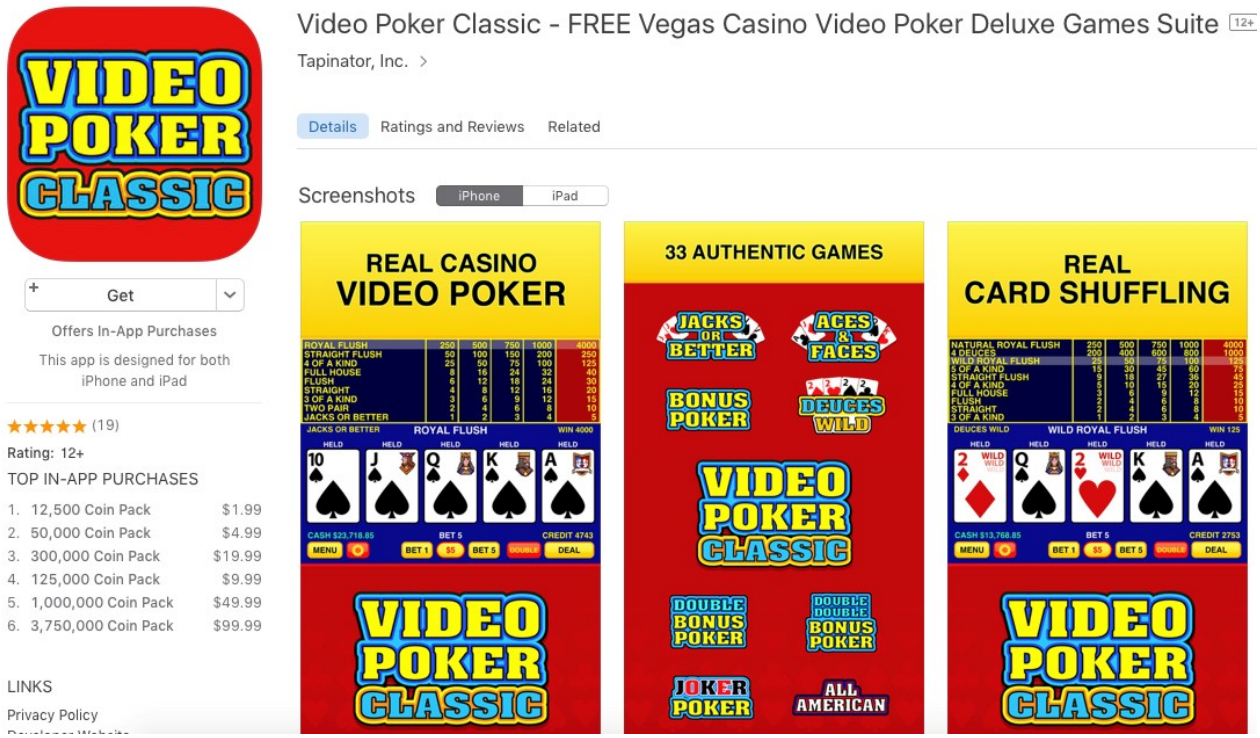
Q2 2016 Forecast

We expect the second quarter of 2016 to be up sequentially from Q1 based on all the launch activity in the quarter and the success of Video Poker Classic launched on April 15th. This game is in the top 100 downloads on IOS and is making an impact in the less crowded video poker space. The company has taken the look and feel of the actual casino game, and users like its authenticity. Estimated revenues are $ 0.9 million versus $615,000 in Q2 2015, up 48%. We again expect earnings to round to a loss of $0.01 versus virtually breakeven last year.

LAUNCH TIMELINE

Second Quarter:

- ***Video Poker Classic*** has already launched April 15, 2016 and has 19 five star ratings. It has been a top 100 game download in on iTunes and is featured today on Amazon's AppStore Home page.



- ***Multiplayer VIP Poker*** was expected in Q1 but has slipped to late in Q2.

- ***Combo Quest 2***: a freemium sequel to the original paid version hit, *Combo Quest.* It should soft launch in a smaller country such as Canada or Australia before it is rolled out worldwide a few months later.

Second or Third Quarter:

- ***ROCKY***: game based on the legendary franchise should launch on or around June 30th in anticipation of the movie 40th anniversary November 21. It should also benefit from he theatre launch of *Creed 2* the next movie in the Rocky sequel. We believe the company is hoping for "seven figures" in revenue from this game alone and believe is has evergreen staying power. It will be on the OIS, Google Play, and Amazon platforms.

Third Quarter:

- ***Big Sport Fishing 2***: a freemium sequel to the 14+ million downloaded, *Big Sport Fishing*. It has been the company's biggest title to date. It slipped out of Q2 into Q3.

- To Be Announced: Another game in social casino, but not video poker.

Fourth Quarter:

- ***Fusion Heroes***: strategy game with match-3 elements

- ***TBA*** a non-licensed and non-casino game

Q1 2016	Q2 2016	Q3 2016	Q4 2016
MISS THE MOOSE	COMBO QUEST 2	ROCKY *June 30, 2016	FUSION HEROES
	VIDEO POKER CLASSIC	BIG SPORT FISHING 2016	To Be Announced
	VIDEO POKER VIP MULTIPLAYER	To Be Announced	

RISKS

- Competition continues to increase, which could make it difficult for TAPM to execute its growth strategy.
- Industry spending on player acquisitions and marketing could push Tapinator to increase its spending, as well, which could have a negative impact on the company's results and cash position.
- The company is not fully reporting.
- The social casino gaming sector could prove more competitive and difficult to penetrate than management anticipates.
- Its increased emphasis on licensed product could pressure overall margins as well as pose a bigger risk to earnings as development costs increase.
- Game development is not an exact science and projects can slip from one quarter to the next making revenue projections even more difficult.

VALUATION

In valuing Tapinator we look to the valuations of others in the industry. Most of the public companies are very large and range from Activision (ATVI) at $27B enterprise value to Glu Mobile (GLUU) at $122 million. Even the companies that are growing in this group grow much more slowly than Tapinator and thus Tapinator deserves a higher multiple to its peers. If we look at enterprise value to EBIDTA and eliminate the companies that have negative EBITDA we see they are valued at an average of 17.5 times. If we apply that number to TAPM's estimated 2016 EBITA of $1 million we calculate a stock price of $0.30 per share. Looking ahead to 2017 estimates, and assuming the convertible note is paid back the price could move to $0.50 per share.

	Ticker	Revenue		TTM	Enterprise Value / Sales		EV/	Included	Enterprise
Company		2016E	LTM	EBITDA	2016E	LTM	EBITDA	in Average?	Value
Activision	ATVI	$6,290	$4,660	$1,420	4.4x	5.9x	19.3x	y	27,380
Electronic Arts	EA	$4,632	$4,270	$942	3.5x	3.8x	17.3x	y	16,310
Gameloft	GLOFY	$272	$276	$8	2.5x	2.5x	85.2x	n	678
Glu Mobile	GLUU	$228	$250	$8	0.5x	0.5x	15.9x	y	122
Take Two	TTWO	$1,729	$1,340	-$211	1.3x	1.6x	-10.4x	n	2,190
Zynga	ZNGA	$728	$765	-$49	1.4x	1.3x	-20.4x	n	998
Average				**789.9**	**2.8x**	**3.4x**	**17.5x**		**$14,604**

INCOME STATEMENT

	March Q1 15	June Q2 15	Sept Q3 15	Dec Q4 15	March Q1 16	June Q2 16E	Sept Q3 16E	Dec Q4 16E	2014	2015	2016E	2017E
REVENUE	0.412	0.615	0.728	0.693	0.849	0.910	1.200	1.300	0.943	2.448	4.259	5.962
Yr-to-yr Gr.	329%	172%	191%	87%	106%	48%	65%	88%		159%	74%	40%
OPERATING EXPENSES												
Platform Fees	0.133	0.186	0.233	0.193	0.264	0.273	0.360	0.390	0.283	0.745	1.287	1.789
Net revenues	0.279	0.429	0.495	0.500	0.585	0.637	0.840	0.910	0.660	1.703	2.972	4.173
% of Sales	67.6%	69.8%	68.0%	72.2%	68.9%	70.0%	70.0%	70.0%	70.0%	69.6%	69.8%	70.0%
R&D	0.042	0.038	0.030	0.025	0.031	0.045	0.060	0.072	0.303	0.136	0.208	0.400
Marketing & PR	0.013	0.042	0.108	0.054	0.031	0.055	0.150	0.180	0.023	0.216	0.416	0.500
G&A	0.112	0.167	0.299	0.286	0.308	0.320	0.350	0.360	0.233	0.864	1.338	1.700
Impairment of cap software	0.000	0.000	0.000	0.584	0.000	0.000	0.000	0.000	0.000	0.584	0.000	0.000
Amortization of cap software	0.049	0.323	0.212	0.170	0.189	0.200	0.210	0.220	0.038	0.754	0.800	0.900
Depreciation and amortization	0.000	0.003	0.019	0.019	0.019	0.019	0.019	0.019	0.001	0.042	0.050	0.070
Tot Operating Exp.	0.216	0.573	0.668	1.139	0.578	0.639	0.789	0.851	0.598	2.596	2.812	3.570
Operating Income	0.062	(0.143)	(0.173)	(0.640)	0.007	(0.002)	0.051	0.059	0.062	(0.894)	0.160	0.603
Operating Margin	15%	-23%	-24%	-92%	1%	0%	4%	5%	7%	-37%	4%	10%
Yr-to-yr Gr.	-275%	-525%	-276%	-1525%	-95%	-99%	-118%	-105%				
Debt discount amortization	0.038	0.114	0.327	0.327	0.324	0.324	0.324	0.324	0.038	0.806	1.295	0.648
Interest expense	0.016	0.041	0.082	0.081	0.081	0.081	0.081	0.081	0.016	0.220	0.326	0.350
Pretax Income	0.009	(0.298)	(0.582)	(1.048)	(0.398)	(0.408)	(0.355)	(0.347)	0.009	(1.920)	(1.461)	(0.394)
	2.2%	-48.5%	-80.0%	-151.4%	-47.0%	-44.8%	-29.5%	-26.7%	0.9%	-78.4%	-34.3%	-6.6%
Taxes	0.003	0.001	0.000	0.000	0.004	0.000	0.000	0.000	0.001	0.004	0.004	0.004
Tax Rate	35.0%	-0.2%	0.0%	0.0%	-1.1%	0.0%	0.0%	0.0%	7.2%	-0.2%	-0.3%	0.0%
Net Income	0.006	(0.299)	(0.582)	(1.048)	(0.403)	(0.408)	(0.355)	(0.347)	0.008	(1.924)	(1.465)	(0.398)
Yr-to-yr Gr.	-170%	-2516%	-1821%	3396%	-6998%	36%	-39%	-67%		-24482%	-24%	-73%
EPS	$0.00	($0.01)	($0.01)	($0.02)	($0.01)	($0.01)	($0.01)	($0.01)	$0.00	($0.03)	($0.02)	($0.01)
Yr-to-yr Gr.	-146%	-2105%	-1773%	3301%	-6845%	32%	-42%	-70%		-23600%	-26%	-76%
Stock-based compensation	-	0.006	0.015	0.015	0.006	0.006	0.006	0.006	-	0.036	0.022	0.080
Non-GAAP net income	0.006	(0.293)	(0.567)	(0.449)	(0.397)	(0.402)	(0.349)	(0.341)	0.008	(1.303)	(1.443)	(0.318)
Non-GAAP EPS	$0.00	($0.00)	($0.00)	($0.00)	($0.01)	($0.01)	($0.01)	($0.01)	$0.00	($0.01)	($0.02)	($0.00)
Yr-to-yr Gr.					NM	117%	39%	157%		-6166%	181%	-81%
Share Out	55.8	55.3	57.1	57.1	57.1	57.1	59.8	62.6	55.0	57.1	59.1	68.0
Fully diluted shares			68.0	68.0	68.0	68.0	68.0	68.0	55.7	89.9	68.0	70.0
										4%	4%	15%
EBITDA	0.112	0.188	0.074	0.149	0.221	0.223	0.286	0.304	0.102	0.523	1.032	1.653
Margin %	27%	31%	10%	22%	26%	24%	24%	23%	11%	21%	24%	28%

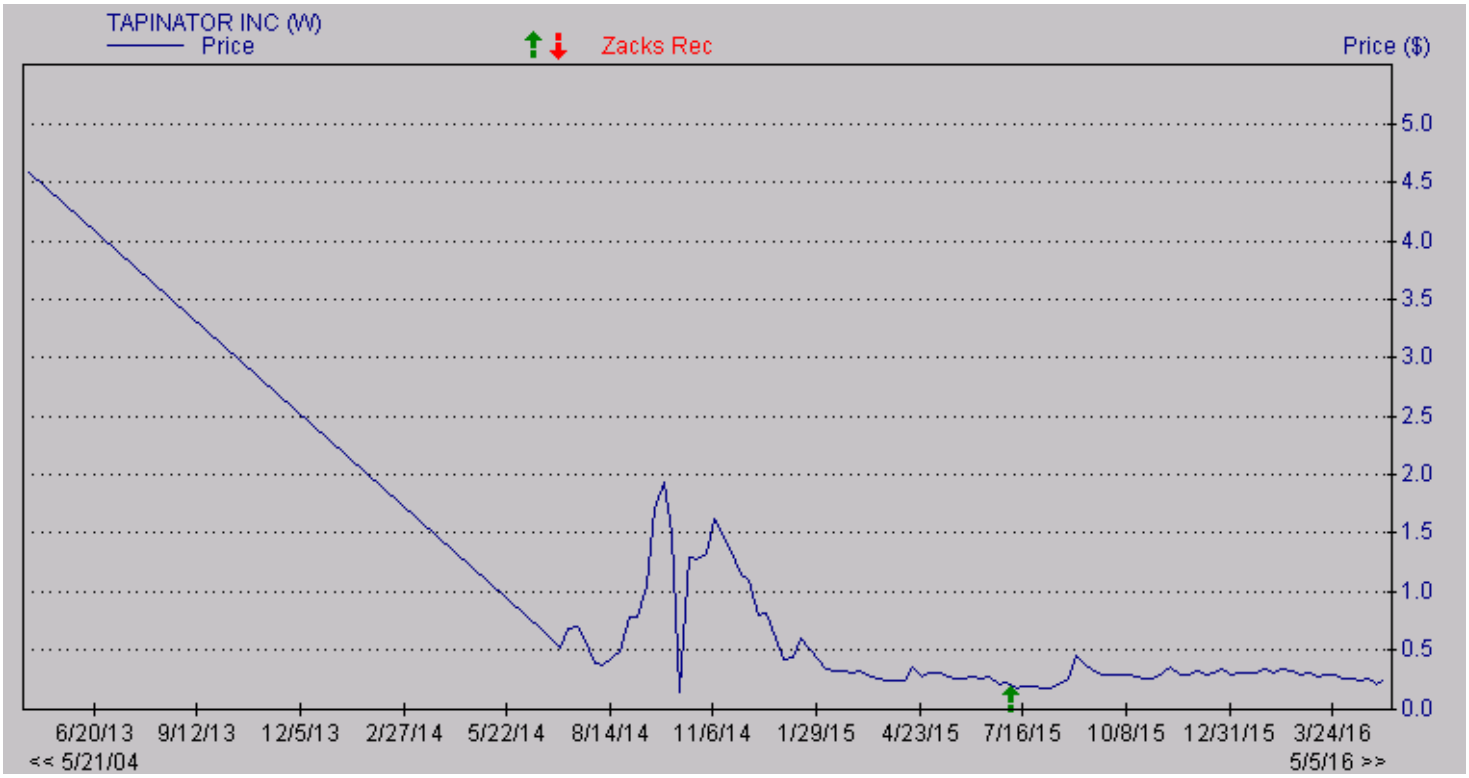
BALANCE SHEET

	Mar 31, 2015	Dec. 31, 2015	% Change
Cash and equivalents	**1,489,770**	**1,487,196**	0.2%
Accounts receivable	349,974	429,565	-18.5%
Prepaid expenses	17,839	54,589	-67.3%
Total Current Assets	1,857,583	1,971,350	-5.8%
Property & Equipment	17,245	13,714	25.7%
Software development costs	790,405	746,936	5.8%
Capitalized financing costs	54,264	71,959	-24.6%
Investments	19,086	19,086	0.0%
Security deposit	14,052	14,052	0.0%
Total assets	2,752,635	2,837,097	-3.0%
Accounts payable	157,192	197,031	-20.2%
Due to related parties	**125,602**	**100,640**	24.8%
Sr convertible debentures, net	**1,144,110**	**391,186**	192.5%
Total current liabilities	1,426,904	688,857	107.1%
Sr convertible debenture	**-**	**391,186**	-100.0%
Total liabilities	1,426,904	1,080,043	32.1%
Total stockholder's equity	1,325,733	1,757,054	-24.5%
Total liab & stockholder's equity	2,752,637	2,837,097	-3.0%
Current ratio	1.3	2.9	-54.5%
Working Capital	430,679	1,282,493	-66.4%
Debt	1,269,712	883,012	43.8%
Debt as a % of assets	46.1%	31.1%	48.2%
Cash as % of total assets	54.1%	52.4%	3.2%
Net cash	220,058	995,370	-77.9%

CASH FLOW

Quarterly Cash Flow	2015					2016
	3 Mo Mar	3 Mo June	3 Mo Sept	3 Mo Dec	2015 YR	3 Mo Mar
Cash flows from operating activities						
Net income (loss)	5,840	(298,989)	(582,392)	(1,048,467)	(1,924,008)	(402,820)
Adjustments to reconcile net income (loss) to net cash prov						
Depreciation and amortization	49,441	323,729	233,465	189,039	795,674	208,072
Amortization of debt discount	-	151,646	327,402	327,402	806,450	323,843
Amortization of original issue discount	6,403	11,704	83,103	(12,788)	88,422	37,895
Stock-based compensation	-	5,175	15,489	15,792	36,456	-
Impairment of capitalized software	-	-	-	584,479	584,479	-
Cash flow	61,684	193,265	77,067	55,457	387,473	166,990
Free cash flow	(82,853)	28,470	(134,760)	(247,285)	(436,428)	(70,391)
Changes in operating assets & liabilities:						
Accounts recievable	(7,001)	(124,252)	(40,180)	(127,451)	(298,884)	79,591
Due from related parties	-	-	(110,494)	110,494	-	-
Prepaid expenses	-	(5,145)	(4,855)	(44,589)	(54,589)	8,250
Security deposits	5,800	-	-	(12)	5,788	-
Accounts payable & accrued expenses	(20,729)	100,076	91,129	(30,370)	140,106	(39,839)
Due to related parties	(17,055)	(45,095)	37,428	(3,965)	(28,687)	24,962
Capitalized financing costs	-	(110,494)	110,494	-	-	-
Interest on promissary notes	9,351	(9,351)	-	148,644	148,644	-
Net cash provided by operating activities	32,050	(42,178)	(177,447)	108,208	299,851	239,954
Cash flows from investing activities						
Capitalized software dev. costs and other fixed assets inv.	(144,537)	(164,795)	(211,827)	(303,270)	(824,429)	(232,383)
Purchase of property, plant and eqt.				(10,272)	(10,272)	(4,998)
Reimbursement of leasehold improvements				10,800	10,800	-
Net cash used in investing activities	(144,537)	(164,795)	(211,827)	(302,742)	(823,901)	(237,381)
Cash flows from financing activities						
Issuance of promissory notes	24,000	1,976,000	-	-	2,000,000	-
Beneficial conver feature on prom. Notes	37,500	(37,500)	-	-	-	-
Capitalized financing costs	-	-	-	(110,494)	(110,494)	-
Net cash provided by financing activities	61,500	1,938,500	-	(110,494)	1,889,506	-
Net change to cash and cash equivalents	(50,987)	1,774,889	(389,274)	(305,028)	1,365,456	2,573
Cash and cash equivalents at beginning of period	121,740	70,753	1,845,642	1,456,368	121,740	1,487,196
Cash and cash equivalents at end of period	70,753	1,845,642	1,456,368	1,487,196	1,487,196	1,489,769
Non-cash investing and financing activities						
Redeemable preferred stock conversion	-	-	-	-	-	-
Common stock issued for convertible notes payable	-	-	-	393,556	393,556	-
issuance of red pref and assump of prom notes to acw sw	876,718	(876,718)	-	-		876,718

HISTORICAL STOCK PRICE



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