Zacks Small-Cap Research

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# Net Element Inc. (NETE-NASDAQ)

## NETE: Company Reports Full Year Revenue Up 35% and Losses Decline

Using an industry average of EV to GM of 6.3X we believe the stock could be worth $4.17 per share by next year if NETE could reach profitability.

| | |
|---|---|
| Current Price (04/04/17) | $0.84 |
| **Valuation** | **$4.17** |

## OUTLOOK

Net Element is a software and services company for global online and mobile payments. It operates a merchant processor in the US with an attractive merchant offering from its Aptito front-end solution and a mobile payment processor in operating primarily in Russia but expanding worldwide. It has shown extraordinary growth in the US, but needs to reach cash flow break even to stop equity dilution.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$3.60** |
| **52-Week Low** | **$0.75** |
| **One-Year Return (%)** | **-62.0** |
| **Beta** | **0.9** |
| **Average Daily Volume (sh)** | **203,261** |
| **Shares Outstanding (mil)** | **17.7** |
| **Market Capitalization ($mil)** | **$15** |
| **Short Interest Ratio (days)** | **3.1** |
| **Institutional Ownership (%)** | **3** |
| **Insider Ownership (%)** | **33** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **151** |
| **Earnings Per Share (%)** | **N/M** |
| **Dividend (%)** | **0** |
| **P/E using TTM EPS** | **N/M** |
| **P/E using 2017 Estimate** | **N/M** |
| **P/E using 2018 Estimate** | **N/M** |

| | |
|---|---|
| **Risk Level** | **Above Average** |
| **Type of Stock** | **Small-Blend** |
| **Industry** | **Internet Commerce** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2015 | 5.5 A | 6.9 A | 12.7 A | 15.1 A | 40.2 A |
| 2016 | 11.3 A | 13.7 A | 14.0 A | 15.3 A | 54.3 A |
| 2017 | 13.1 E | 14.6 E | 16.3 E | 18.0 E | 62.0 E |
| 2018 | | | | | 73.5 E |

**Earnings per Share**
(Non-GAAP EPS before non-recurring items)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2015 | -$0.36 A | -$0.64 A | -$0.42 A | -$0.22 A | -$1.54 A |
| 2016 | -$0.13 A | -$0.10 A | -$0.11 A | -$0.16 A | -$0.64 A |
| 2017 | -$0.09 E | -$0.07 E | -$0.05 E | -$0.03 E | -$0.23 E |
| 2018 | | | | | -$0.14 E |

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

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## WHAT'S NEW

### Net Element Reports 2016 Revenue Growth of 35% and Decreases Losses

Net Element reported solid revenue growth of 35% to $54.3 million in 2016. Its North American Unified Payments business did extraordinarily well growing 54% to $42.1 million. However this result was combined with the Mobile payments business, which declined 34% to $5.9 million and PayOnline, which grew 34% to $6.2 million (due to only a partial year in 2015.) The US business has been adding value added services and has just started to sell its Aptito SaaS service in Russia, **which should result in improving margins** throughout the course of the year. Mobile payments struggled as the company discovered that its business model without financing was not conducive to profitability. It required payment up front to suppliers while not receiving payment from customers for 60-90 days. As the credit facility it had in Russia is no longer available, the company is instead focusing on countries such as Poland and Turkey where this upfront financing is not required and expects to grow this business sequentially in 2017. If the company can find appropriate financing, it may also be able to revive the Russian business.

Overall expenses grew less than revenues exhibiting operating leverage, and the operating losses declined year over year. More importantly the company made some progress toward becoming EBITDA positive. Adjusted EBITDA in 2016 was loss of $3.5 million versus a loss of $3.8 million in 2015. Hopefully the company will focus on reaching cash breakeven so that the rise in share count is lessened to match the growth in revenues and per share value will start to grow. The company is still burning about $380,000 a month or $1.1 million a quarter and has been using primarily equity to finance the losses. We do not see that changing and equity dilution should continue. If the company were to decrease losses by increasing operating leverage faster than the share price dilution, or in other words, if investment was accretive, the price per share could improve.

Interest expense was reduced significantly from 2015. The company paid $1.5 million in interest in 2016 compared with $3.6 million in 2015 as the company paid off preferred stock.

On a GAAP basis the company reported at loss of $13.5 million versus $15 million in 2015. On a non-GAAP basis, without share-based compensation and one-time gains and charges, the company reported a loss of $7.9 million versus a loss of $9.8 million. Shares count however rose 104% to 13.4 million versus 6.4 million a year ago. This is clearly the main reason the value per share has not increased despite improvement in operating results. On a non-GAAP basis the loss was $0.60 per share versus a loss of $1.54 in 2015.

The company continues to focus on growing revenues and is willing to sacrifice short-term profits to generate revenues with a long tail, future profitability and higher margins. As long as public markets are willing to fund the company through equity, this strategy may play out in future years.

### Q4 Results

Q4 revenue growth was near our target but disappointing on a year over year basis. Revenues this quarter were virtually flat with last year at **$15.3 million versus $15.1 million** and showed only 1.5% growth. This rapid deceleration of growth over the past few quarter was purely from the decline in mobile payments that went from $5.9 million in Q4 of 2015 to $0.9 million this year. This business allows customers to buy services through phone company billing. As we previously mentioned, the company discovered that its business model was not conducive to profitability. It required payment up front to suppliers while not receiving payment from customers for 60-90 days. The company is instead focusing on countries such as Poland and Turkey where this upfront financing is not required and expects to grow this business in 2017.

The largest component of the company's revenues, US card processing services, grew 56.1% even faster than its 42.9% in Q3. Revenues went from $8.1 million to $12.7 million in the quarter.

Gross margin dollars were up 13.4% from $1.9 to $2.2 million. Operating expenses declined to $4.8 million from $5.9 million mainly because of a reduction of stock based compensation. In 2015 $2.5 million was paid out versus only $0.4 million in 2016. Operating loss was $2.6 million versus $4.0 million a year ago.

Non-GAAP results showed continued improvement. The adjusted non-GAAP operating loss was again $2.5 million versus $2.1 million a year ago. On a per share basis, the **adjusted non-GAAP loss per share declined to $0.16 per share versus a loss of $0.22 per share.** This year there are 15.3 million shares outstanding while last year there were only 9.5 million or 61% more than last year. Investors should focus on the company's ability to reduce its operating loss and reach cash breakeven for signs of progress.

**Events Since Q4 Ended**

On April 5, 2017, Net Element's PayOnline group launched support of ApplePay in Russia where there are estimated to be 200,000 ApplePay users.

## INVESTMENT THESIS

- Net Element is growth company in the payments industry that should benefit from the adoption of mobile and online payments in the US, Russia, and the Middle East and ultimately globally.
- Its Aptito product line provides differentiation and value-added services to its generic card processing business.
- This business should increase margins as well as aid sales efforts by improving price/performance and customer stickiness.
- The company has an increasingly robust platform to create a global payment system complete with merchant from end and should be able to expand geographically.
- We believe the company could grow to $62 million in revenues in 2017 through a combination of internal growth and possibly acquisitions.
- If NETE achieves our forecasts without further common stock dilution than that already predicted and no incremental debt, we believe its common stock could be worth $4.17 per share by next year based on an industry average valuation of approximately 6.3xs enterprise value to gross margin

## RISKS

- The company has new financial arrangements that are dilutive to common shareholders. It is uncertain if the company will be able to make accretive investments with these funds and shareholders may suffer further dilution.
- The company is losing money and may not be able to reach profitability or positive cash flow.

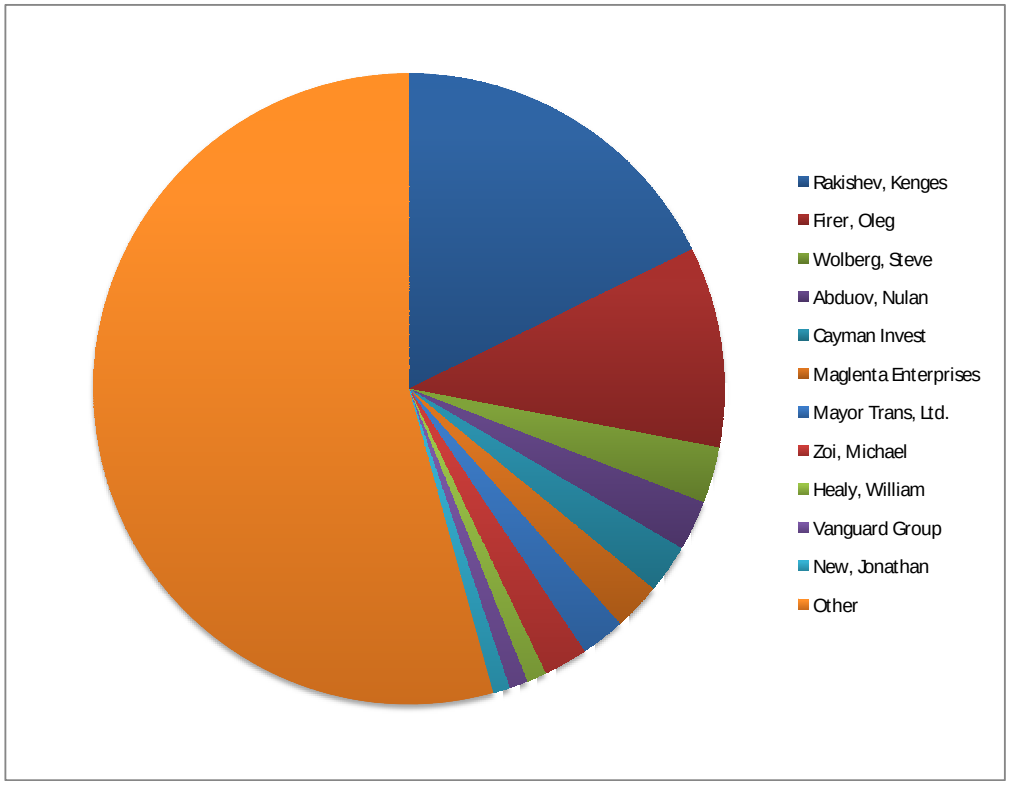
- The company is involved in a number of lawsuits.
- The mobile and online payment market is still in its infancy and there is no assurance countries will adopt this method to pay for goods and services.
- The company is somewhat dependent on Russia and due to oil prices, political turmoil, and sanctions, and this could affect payment volumes and the ability to do business there.
- Future acquisitions may not be successfully integrated operationally or technologically. Purchased portfolios may not yield expected profits.
- The merchant acquirer market in the US is competitive and larger companies have an advantage due to economies of scale and access to capital.
- Operations in Russia and the United Federation and the Middle East face considerable political risk and the company may be prohibited from certain financial transactions by government regulation and restrictions.
- Currency, particularly the ruble, has fluctuated dramatically and could affect reported earnings and operations.

## VALUATION

Due the variation in reporting of revenues of the various competitors of Net Element, we have chosen to use gross margin contribution as a more accurate way to value the companies. Using Net Element's peer group we find an average valuation of 6.3 times the enterprise value to trailing twelve-month gross margin. If we use that multiple and apply it Net Element's trailing 12-month gross margin, we see that the stock could be worth $3.56 if it were profitable. Using our forecasts, that price could rise to $4.17 next year using 2017 estimated gross margin of $9.9 million and a share count of 21.3 million shares.

| Company | Ticker | Gross Margin | % | Revenue 2017E | EV/GM | Included in Average? | Enterprise Value |
|---|---|---|---|---|---|---|---|
| Cielo | CIOXY | 1,940 | 52% | NA | 12.7 | n | 24,620 |
| EVERTEC | EVTC | 214 | 54% | 397 | 8.1 | y | 1,740 |
| First Data | FDC | 4,650 | 63% | 7,350 | 6.9 | y | 31,920 |
| Global Payments | GPN | 1,750 | 52% | 3,390 | 9.1 | y | 15,900 |
| JetPay | JTPY | 19 | 29% | 66 | 2.2 | y | 42 |
| PayPal | PYPL | 10,840 | 86% | 12,610 | 3.9 | y | 41,770 |
| Qiwi | QIWI | 151 | 74% | 203 | 2.7 | y | 405 |
| Total System Services | TSS | 1,180 | 35% | 3,350 | 10.7 | y | 12,590 |
| Vantiv | VNTV | 1,900 | 90% | 2,110 | 6.9 | y | 13,150 |
| **Average** | | | 60% | | 6.3 | | 14,690 |
| Net Element | NETE | 9.92 | 18% | $62 | | | |
| | | | | | | Market Value | 58.4 |
| | | | | | | EV | 62.6 |
| | | | | | | Shares Out | 21.3 |
| | | | | | | Share price | $4.17 |

## OWNERSHIP


Rakishev, Kenges
Firer, Oleg
Wolberg, Steve
Abduov, Nulan
Cayman Invest
Maglenta Enterprises
Mayor Trans, Ltd.
Zoi, Michael
Healy, William
Vanguard Group
New, Jonathan
Other

# INCOME STATEMENT

| | 2015 | | | | 2016 | | | | 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2016 31-Dec | Q1 2017E 31-Mar | Q2 2017E 30-Jun | Q3 2017E 30-Sep | Q4 2017E 31-Dec | 2015 | 2016 | 2017E | 2018E |
| North America Transaction | $5.2 | $6.3 | $7.8 | $8.1 | $7.9 | $10.4 | $11.2 | $12.7 | $11.0 | $12.5 | $14.0 | $15.5 | $27.4 | $42.1 | $53.0 | $63.6 |
| Yr-over-yr Growth | 26.4% | 37.1% | 41.4% | 58.3% | 51.7% | 65.9% | 42.9% | 56.4% | 40.1% | 20.1% | 25.2% | 22.2% | 41.7% | 53.8% | 39.7% | 20.0% |
| Credit card cost of service | 4.6 | 5.5 | 6.5 | 7.0 | 6.7 | 9.0 | 9.6 | 11.1 | 9.7 | 10.9 | 11.9 | 13.2 | 23.5 | 36.3 | 45.6 | 54.2 |
| Gross margin | 0.6 | 0.8 | 1.3 | 1.2 | 1.2 | 1.4 | 1.6 | 1.6 | 1.3 | 1.6 | 2.1 | 2.3 | 3.9 | 5.8 | 7.4 | 9.4 |
| Gross margin % | 11.1% | 13.1% | 17.1% | 14.3% | 15.3% | 13.8% | 14.3% | 12.2% | 12.2% | 13.0% | 14.8% | 15.0% | 14.2% | 13.7% | 13.9% | 14.8% |
| Mobile payments | 0.4 | 0.3 | 2.8 | 5.6 | 2.0 | 1.8 | 1.2 | 0.9 | 0.5 | 0.5 | 0.6 | 0.6 | 9.0 | 5.9 | 2.2 | 2.4 |
| Yr-over-yr Growth | | -2.2% | 470.2% | NM | 448.9% | 437.6% | -56.1% | -83.2% | -74.9% | -71.9% | -51.1% | -35.8% | 385.5% | -34.4% | -41.3% | 10.0% |
| Cost of Service | 0.0 | 0.0 | 2.8 | 5.3 | 1.8 | 1.6 | 1.0 | 0.9 | 0.5 | 0.5 | 0.6 | 0.6 | 8.1 | 5.3 | 2.0 | 2.1 |
| Gross Margin | 0.349 | 0.3 | 0.0 | 0.216 | 0.178 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.6 | 0.2 | 0.3 |
| Gross margin % | 96.2% | 95.5% | 1.3% | 3.9% | 8.9% | 12.0% | 14.7% | 7.9% | 8.0% | 8.0% | 8.0% | 8.0% | 10.2% | 10.9% | 8.0% | 11.9% |
| PayOnline | - | 0.3 | 2.1 | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 | 1.6 | 1.6 | 1.7 | 1.9 | 3.8 | 6.2 | 6.8 | 7.5 |
| Yr-over-yr Growth | - | NA | NA | NA | NA | NM | -22.2% | 17.6% | 13.1% | 6.0% | 6.4% | 11.7% | NA | 63.6% | 15.2% | 10.0% |
| Online Solutions Cost of Service | - | 0.0 | 1.5 | 0.9 | 0.9 | 1.0 | 1.1 | 1.1 | 1.0 | 1.0 | 1.1 | 1.2 | 2.4 | 4.1 | 4.4 | 4.8 |
| Gross Margin | - | 0.3 | 0.6 | 0.5 | 0.5 | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 1.4 | 2.1 | 2.4 | 2.7 |
| Gross margin % | | 100.0% | 29.0% | 37.9% | 35.1% | 37.0% | 33.4% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 38.1% | 34.5% | 35.0% | 36.0% |
| **Total revenues** | 5.5 | 6.9 | 12.7 | 15.1 | 11.3 | 13.7 | 14.0 | 15.3 | 13.1 | 14.6 | 16.3 | 18.0 | **40.2** | **54.3** | **62.0** | **73.5** |
| Yr-to-yr Growth | 14.4% | 40.6% | 110.3% | 179.3% | 103.2% | 98.2% | 10.5% | 1.4% | 16.3% | 6.6% | 16.3% | 17.5% | 89.8% | 34.9% | 19.2% | 18.5% |
| **Costs and expenses:** | | | | | | | | | | | | | | | | |
| Cost of revenues | 4.6 | 5.5 | 10.7 | 13.2 | 9.4 | 11.5 | 11.7 | 13.1 | 11.2 | 12.4 | 13.6 | 15.0 | 34.0 | 45.7 | 52.1 | 61.1 |
| Gross Margin | 0.9 | 1.4 | 2.0 | 1.9 | 1.9 | 2.2 | 2.3 | 2.2 | 1.9 | 2.2 | 2.7 | 3.0 | 6.3 | 8.6 | 9.9 | 12.4 |
| % of Sales | 16.7% | 20.8% | 15.5% | 12.7% | 16.7% | 16.1% | 16.5% | 14.2% | 14.8% | 15.2% | 16.7% | 16.9% | 15.6% | 15.8% | 16.0% | 16.9% |
| G&A | 2.0 | 2.6 | 2.2 | 2.6 | 2.1 | 2.0 | 2.3 | 2.4 | 2.1 | 2.2 | 2.4 | 2.6 | 9.3 | 8.8 | 9.3 | 10.2 |
| Stock-based compensation | 0.6 | 0.6 | 0.6 | 2.5 | 0.4 | 2.0 | 0.7 | 0.4 | 0.4 | 0.7 | 1.0 | 1.3 | 4.3 | 3.5 | 3.4 | 3.4 |
| Provision for loan losses | 0.0 | 0.1 | 0.3 | 0.2 | 0.3 | 0.1 | 0.3 | 1.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.6 | 1.7 | 0.8 | 0.9 |
| Depreciation and amortization | 0.4 | 0.6 | 0.9 | 0.6 | 0.9 | 0.8 | 0.8 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 | 2.5 | 3.5 | 3.4 | 3.4 |
| Total operating expenses | 3.1 | 3.9 | 3.9 | 5.9 | 3.6 | 5.0 | 4.1 | 4.8 | 3.7 | 4.0 | 4.4 | 4.8 | 16.8 | 17.4 | 16.9 | 17.9 |
| **Loss from operations** | (2.2) | (2.5) | (1.9) | (4.0) | (1.7) | (2.8) | (1.8) | (2.6) | (1.7) | (1.8) | (1.7) | (1.8) | (10.5) | (8.8) | (6.9) | (5.5) |
| Interest expense, net | (0.1) | (1.3) | (1.6) | (0.6) | (0.2) | (0.4) | (0.6) | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) | (3.6) | (1.5) | (1.0) | (1.0) |
| Other expense | 0.0 | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) | 0.4 | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.4 | 0.0 | 0.0 |
| Gain on asset disposal | 0.0 | 0.0 | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gain on change in conversion derivative | 0.0 | 2.0 | (1.1) | (25.8) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (26.9) | 0.0 | 0.0 | 0.0 |
| Loss from stock value guarantee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (2.2) | (1.6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (3.7) | 0.0 | 0.0 |
| One-time charges | 0.0 | 0.0 | 0.1 | 25.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 27.7 | 0.0 | 0.0 | 0.0 |
| Total non-operating expenses | (0.1) | 0.7 | (2.6) | (0.8) | (0.2) | (2.6) | (0.2) | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) | (2.8) | (4.8) | (1.0) | (1.0) |
| Pretax operating income (loss) | (2.2) | (1.8) | (4.5) | (4.8) | (1.9) | (5.4) | (3.5) | (2.8) | (2.0) | (2.0) | (1.9) | (2.0) | (13.3) | (13.6) | (8.0) | (6.5) |
| Income tax provision | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax rate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Operating Loss** | (2.2) | (1.8) | (4.5) | (4.8) | (1.9) | (5.4) | (3.5) | (2.8) | (2.0) | (2.0) | (1.9) | (2.0) | (13.3) | (13.6) | (8.0) | (6.5) |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 |
| Net loss | (2.2) | (1.8) | (4.5) | (4.7) | (1.8) | (5.3) | (3.5) | (2.8) | (1.9) | (2.0) | (1.9) | (2.0) | (13.3) | (13.5) | (8.0) | (6.5) |
| Preferred dividend | 0.0 | (0.5) | (0.6) | (0.4) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.6) | 0.0 | 0.0 | 0.0 |
| Net loss to common stock | (2.2) | (2.3) | (5.1) | (5.2) | (1.8) | (5.3) | (3.5) | (2.8) | (1.9) | (2.0) | (1.9) | (2.0) | (14.8) | (13.5) | (8.0) | (6.5) |
| Foreign currency translation gain (loss) | (0.1) | (0.1) | (0.2) | 0.1 | (0.0) | (0.5) | (0.1) | (0.3) | 0.0 | 0.0 | 0.0 | 0.0 | (0.3) | (0.9) | 0.0 | 0.0 |
| Comprehensive loss | (2.3) | (1.9) | (5.3) | (4.8) | (1.9) | (5.8) | (3.6) | (3.1) | (1.9) | (2.0) | (1.9) | (2.0) | (15.2) | (14.4) | (8.0) | (6.5) |
| Earnings ex-one time charge | (2.2) | (4.3) | (4.1) | (5.0) | (1.8) | (3.2) | (2.3) | (2.8) | (1.9) | (2.0) | (1.9) | (2.0) | (15.7) | (11.4) | (8.0) | (6.5) |
| Stock-based compensation | 0.6 | 0.6 | 0.6 | 2.5 | 0.4 | 2.0 | 0.7 | 0.4 | 0.4 | 0.7 | 1.0 | 1.3 | 4.3 | 3.5 | 3.4 | 3.4 |
| Adjusted Non-GAAP Earnings | (1.6) | (3.2) | (2.9) | (2.1) | (1.5) | (1.2) | (1.6) | (2.5) | (1.5) | (1.3) | (0.9) | (0.7) | (9.8) | (7.9) | (4.6) | (3.1) |
| Yr-to-yr Growth | -54% | 174% | 31% | -6124% | -9.7% | -63.4% | -44.6% | 19.4% | 4.2% | 10.9% | -43.4% | -71.0% | 42% | -20% | -53% | -32% |
| GAAP EPS | ($0.49) | ($0.46) | ($0.75) | ($0.54) | ($0.16) | ($0.46) | ($0.25) | ($0.19) | ($0.11) | ($0.11) | ($0.09) | ($0.09) | ($2.32) | ($1.03) | ($0.41) | ($0.30) |
| **Non-GAAP EPS** | **($0.36)** | **($0.64)** | **($0.42)** | **($0.22)** | **($0.13)** | **($0.10)** | **($0.11)** | **($0.16)** | **($0.09)** | **($0.07)** | **($0.05)** | **($0.03)** | **($1.54)** | **($0.60)** | **($0.23)** | **($0.14)** |
| Yr-to-yr Growth | | | | | -63% | -84% | -73% | -26% | -33% | -32% | -61% | -79% | -17% | -60.7% | -61.2% | -63.7% |
| Share outstanding | 4.6 | 5.0 | 6.9 | 9.5 | 11.3 | 11.6 | 14.0 | 15.3 | 17.7 | 19.0 | 20.2 | 21.3 | 6.4 | 13.1 | 19.5 | 22.0 |
| Yr-to-yr Growth | 0% | 8% | 49% | 106% | 145% | 134% | 105% | 61% | 57% | 63% | 44% | 40% | 72% | 104.3% | 49.6% | 30.2% |
| Fully diluted shares | 6.1 | 6.8 | 9.0 | 12.8 | 12.8 | 13.2 | 15.6 | 17.6 | 20.0 | 21.3 | 22.5 | 23.7 | 8.7 | 14.8 | 21.9 | 24.4 |
| Yr-to-yr Growth | 0% | 12% | 48% | 111% | 110% | 95% | 74% | 38% | 57% | 61% | 44% | 34% | 87% | 62.8% | 47.8% | 11.2% |
| Adjusted EBITDA | (1.090) | (1.284) | (0.451) | (0.918) | (0.449) | 0.088 | (1.846) | (1.258) | (0.358) | (0.175) | 0.115 | 0.238 | (3.751) | (3.509) | (0.180) | 1.284 |

# CASH FLOW

| | Mar. 31, 2015 | June 30, 2015 | Sept. 30, 2015 | Dec. 31, 2015 | YR 2015 | Mar. 31, 2016 | June 30, 2016 | Sept 30, 2016 | Dec. 31, 2016 | YR 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | | | | | |
| Net loss | $ (2,239,208) | $ (1,764,285) | $ (4,513,202) | $ (4,736,917) | $ (13,253,612) | $ (1,847,719) | $ (5,346,448) | $ (3,469,541) | $ (2,823,829) | $ (13,487,537) |
| **Adjustments to reconcile net loss to net cash provided by (used in) operating activities:** | | | | | | | | | | |
| Non controlling interest | $ (8,747) | $ (3,398) | $ (30,705) | $ (31,459) | $ (74,309) | $ (37,876) | $ (38,792) | $ (33,682) | $ (18,189) | $ (128,539) |
| Share based compensation | $ 601,371 | $ 601,371 | $ 601,371 | $ 2,502,191 | $ 4,306,304 | $ 360,984 | $ 2,014,589 | $ 732,701 | $ 355,161 | $ 3,463,435 |
| Deferred revenues | $ (34,858) | | | | | $ (171,908) | $ (245,979) | $ 552,890 | $ (135,003) | $ 0 |
| Gain on change in fair value and settlement of beneficial conversion derivative | $ 0 | $ (2,022,036) | $ 1,083,028 | $ 27,871,503 | $ 26,932,495 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Depreciation and amortization | $ 438,769 | $ 626,498 | $ 851,634 | $ 596,261 | $ 2,513,162 | $ 888,118 | $ 844,534 | $ 764,886 | $ 968,972 | $ 3,466,510 |
| Non cash interest | $ 0 | $ 349,146 | $ (349,146) | $ 0 | $ 0 | $ 0 | $ 297,434 | $ 444,423 | $ 110,551 | $ 852,408 |
| Amortization of deferred revenue | | | | | | | $ 0 | $ 0 | $ (1,221,177) | $ (1,221,177) |
| Amortization of debt discount | $ 0 | $ 983,715 | $ 1,626,315 | $ 417,324 | $ 3,027,354 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| (Recovery of ) provision for loan losses | $ 0 | $ (94,770) | $ 94,770 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 500,000 | $ 500,000 |
| Amorization of prepaid costs | | | | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 967,313 | $ 967,313 |
| (Gain) loss on disposal of fixed assets | $ 0 | $ (23,854) | $ (44,932) | $ 68,786 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Loss on debt extinguishment | $ 0 | $ 0 | $ (79,325) | $ (27,664,655) | $ (27,743,980) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Gain on MBF debt restructure | $ 0 | $ 0 | $ 0 | $ (40,369) | $ (40,369) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| **Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates** | | | | | | | | | | |
| Account receivable | $ 131,020 | $ 135,509 | $ (1,469,958) | $ (298,776) | $ (1,502,205) | $ 436,453 | $ (768,019) | $ (278,818) | $ (2,140,760) | $ (2,751,144) |
| Advances to aggregators | $ 0 | $ (92,017) | $ 59,127 | $ 42,912 | $ 10,022 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Deferred revenue | $ 0 | $ (310,241) | $ 273,477 | $ 308,192 | $ 271,428 | $ 0 | $ 0 | $ 0 | $ 1,833,239 | $ 1,833,239 |
| Prepaid expenses and other assets | $ 278,319 | $ (104,721) | $ (263,433) | $ 381,466 | $ 291,631 | $ 334,291 | $ (63,359) | $ (602,430) | $ (239,084) | $ (570,582) |
| Accounts payable and accrued expenses | $ 668,175 | $ (621,264) | $ 1,727,439 | $ 1,796,957 | $ 3,571,307 | $ (909,344) | $ 2,786,305 | $ (1,876,961) | $ (368,025) | $ 3,797,753 |
| Net cash (used in) provided by operating | $ (165,159) | $ (2,305,489) | $ (1,034,911) | $ 417,324 | $ (1,690,772) | $ (947,001) | $ (817,169) | $ (4,210,955) | $ (2,210,831) | $ (3,278,321) |
| **Cash flows from investing activities** | | | | | | | | | | |
| Purchase of portfolio and client acquisition | $ 0 | $ (303,775) | $ (119,475) | $ (454,835) | $ (878,085) | $ 0 | $ 0 | $ 0 | $ (1,319,820) | $ (1,319,820) |
| Sale of portfolio | $ 0 | $ 0 | $ 300,000 | $ 0 | $ 300,000 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Acquisition of PayOnline assets, net of cash | $ 0 | $ (3,195,452) | $ 0 | $ 0 | $ (3,195,452) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Purchase of fixed and other assets | $ (6,849) | $ (58,202) | $ (419,086) | $ (95,072) | $ (579,209) | $ (396,819) | $ (558,741) | $ (391,158) | $ 1,159,629 | $ (187,089) |
| Net cash used in investing activities | $ (6,849) | $ (3,557,429) | $ (265,174) | $ (549,907) | $ (4,352,746) | $ (396,819) | $ (558,741) | $ (391,158) | $ (160,191) | $ (1,506,909) |
| **Cash flows from financing activities** | | | | | | | | | | |
| Repayment to Financial Institutions | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Proceeds from preferred stock | $ 0 | $ 5,500,000 | $ 0 | $ 0 | $ 5,500,000 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Proceeds from indebtedness | $ 650,000 | $ 0 | $ 0 | $ 0 | $ 650,000 | $ 75,000 | $ 1,140,000 | $ 1,453,500 | $ 502,040 | $ 3,170,540 |
| Repayment of indebtedness | $ (8,710) | $ 8,710 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ (110,434) | $ 38,734 | $ (71,700) |
| Cash received from issuance of shares and | | | | | | | $ 0 | $ 0 | $ 300,000 | $ 300,000 |
| Note payable (non-current) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Related party advances (payments) | $ 125,000 | $ (40,744) | $ 565,744 | $ (318,727) | $ 331,273 | $ 910,045 | $ 0 | $ (792,266) | $ 910,095 | $ 1,027,874 |
| Net cash provided by (used in) financing | $ 766,290 | $ 5,467,966 | $ 565,744 | $ (318,727) | $ 6,481,273 | $ 985,045 | $ 1,140,000 | $ 661,234 | $ 1,750,869 | $ 4,426,714 |
| Effect of exchange rate changes on cash | $ (331,346) | $ 303,903 | $ 375,021 | $ (262,929) | $ 84,649 | $ 57,537 | $ (741,514) | $ 192,807 | $ (143,498) | $ (45,596) |
| Net increase in cash | $ 91,048 | $ (91,048) | $ (359,320) | $ (714,239) | $ 522,404 | $ (301,238) | $ (90,918) | $ (3,748,072) | $ (763,651) | $ (404,112) |
| Cash at beginning of period | $ 675,231 | $ 766,279 | $ 675,231 | $ 315,728 | $ 503,343 | $ 1,025,747 | $ 724,509 | $ 633,591 | $ 1,385,286 | $ 1,025,747 |
| Cash at end of period | $ 766,279 | $ 675,231 | $ 315,728 | $ 1,025,747 | $ 1,025,747 | $ 724,509 | $ 633,591 | $ 1,385,286 | $ 621,635 | $ 621,635 |
| **Cash paid during the period for:** | | | | | | | | | | |
| Interest | $ 118,910 | $ 2,343 | $ 275,933 | $ 151,158 | $ 548,344 | $ 150,438 | $ 150,438 | $ (127,741) | $ 149,952 | $ 611,625 |
| Taxes | $ 30,505 | $ 59,706 | $ (15,794) | $ 146 | $ 74,563 | $ 86,770 | $ 86,770 | $ 0 | $ 0 | $ 94,718 |
| Operating cash flow | $ (1,207,815) | $ (1,347,613) | $ (760,192) | $ (1,017,335) | $ (4,332,955) | $ (808,401) | $ (2,474,662) | $ (1,008,323) | $ (1,296,201) | $ (5,587,587) |
| Free cash flow | $ (1,214,664) | $ (4,905,042) | $ (1,025,366) | $ (1,567,242) | $ (8,685,701) | $ (1,205,220) | $ (3,033,403) | $ (1,399,481) | $ (1,456,392) | $ (7,094,496) |

## BALANCE SHEET

| | Dec 31, 2016 | Sept 30, 2016 | % Change | Dec. 31, 2015 | % Change |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash | **$621,635** | **$1,385,286** | -55% | **$1,025,747** | -39% |
| Accounts receivable, net | 7,126,429 | 5,866,714 | 21% | 5,198,993 | 37% |
| Prepaid expenses and other assets | 1,467,897 | 1,425,685 | 3% | 1,106,016 | 33% |
| Total current assets | 9,215,961 | 8,677,685 | 6% | 7,330,756 | 26% |
| | | | | | |
| Fixed assets, net | 117,295 | 128,470 | -9% | 162,123 | -28% |
| Intangible assets, net | 3,589,850 | 4,153,065 | -14% | 5,423,880 | -34% |
| Goodwill | 9,643,752 | 9,643,752 | 0% | 9,643,752 | 0% |
| Other long term | 742,810 | 792,834 | -6% | 353,050 | 110% |
| Total assets | 23,309,668 | 23,395,806 | 0% | 22,913,561 | 2% |
| | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | $7,510,113 | $5,650,932 | 33% | $5,858,837 | 28% |
| Deferred revenue | 1,355,972 | 878,913 | 54% | 743,910 | 82% |
| Accrued expenses | 5,518,823 | 5,654,994 | -2% | 2,975,066 | 86% |
| Notes payable (current portion) | **808,976** | **147,577** | 448% | **518,437** | 56% |
| Due to related parties | **299,004** | **447,660** | -33% | **329,881** | -9% |
| Total current liabilities | 15,492,888 | 12,780,076 | 21% | 10,426,131 | 49% |
| | | | | | |
| Notes payable (non-current portion) | **3,755,383** | **4,047,140** | -7% | 3,446,563 | 9% |
| Total liabilities | 19,248,271 | 16,827,216 | 14% | 13,872,694 | 39% |
| | | | | | |
| **STOCKHOLDERS' DEFICIT** | | | | | |
| Common stock | 1,535 | 1,510 | 2% | 11,262 | -86% |
| Paid in capital | 163,918,685 | 163,285,658 | 0% | 154,351,558 | 6% |
| Accumulated other comp income (loss) | (2,486,616) | (2,188,390) | 14% | (1,565,822) | 59% |
| Accumulated deficit | (157,442,585) | (154,618,755) | 2% | (143,955,048) | 9% |
| Noncontrolling interest | 70,378 | 88,567 | -21% | 198,917 | -65% |
| Total stockholders' deficit | 4,061,397 | 6,568,590 | -38% | 9,040,867 | -55% |
| | | | | | |
| Total liabilities and stockholders' deficit | 23,309,668 | 23,395,806 | 0% | 22,913,561 | 2% |
| | | | | | |
| Net Cash | (486,345) | 790,049 | -162% | 177,429 | -374% |
| Current and Quick Ratio | 0.6 | 0.7 | -12% | 0.7 | -15% |
| Working Capital | (6,276,927) | (4,102,391) | 53% | (3,095,375) | 103% |
| Total Debt | 4,863,363 | 4,642,377 | 5% | 4,294,881 | 13% |
| Debt/TA | 21% | 20% | 5% | 19% | 11% |
| DSO | 42.5 | | | | |
| Enterprise value | 13,123,090 | 14,840,925 | -12% | | |

## HISTORICAL STOCK PRICE



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