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# Zacks Small-Cap Research

*Sponsored – Impartial - Comprehensive*

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## Pareteum Corp (TEUM-AMEX)

### TEUM: Pareteum Enters 2018 With $200m Contract Backlog and Cash

Using an average ratio of 3.8Xs enterprise value to sales and sales forecast of $40 million in revenues in 2019 and fully diluted shares. We believe Pareteum stock could be worth $2.22 per share

| | |
|---|---|
| Current Price (03/29/18) | $2.44 |
| **Valuation** | **$2.22** |

### OUTLOOK

Pareteum Corp is a provider of virtualized mobile platforms (ET Software DNA 2.0) for MNOs and MVNO operators worldwide. New management has right sized the business, and brought the company to positive adjusted EBITDA as well as created a large backlog of new customer contracts. The company raised $20 million in December. This much-needed capital raise allowed it to pay off debt and provides resources to execute its growth plan. Its backlog of $200 million should translate into rapid revenue and earnings growth for the next few years.

### SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$3.35** |
| **52-Week Low** | **$0.52** |
| **One-Year Return (%)** | **123** |
| **Beta** | **0.40** |
| **Average Daily Volume (sh)** | **2,919,869** |
| **Shares Outstanding (mil)** | **51** |
| **Market Capitalization ($mil)** | **$131** |
| **Short Interest Ratio (days)** | **2.5** |
| **Institutional Ownership (%)** | **7** |
| **Insider Ownership (%)** | **3** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **-15.4** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2018 Estimate** | **-16.1** |
| **P/E using 2019 Estimate** | **N/A** |
| **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) |
|---|---|---|---|---|---|
| 2016 | 3.3 A | 3.3 A | 3.2 A | 3.1 A | 12.9 A |
| 2017 | 2.8 A | 3.2 A | 3.5 A | 4.0 A | 13.5 A |
| 2018 | 4.0 E | 4.2 E | 5.0 E | 7.0 E | 20.0 E |
| 2019 | | | | | 40.0 E |

**Earnings Per Share**
(GAAP EPS)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2016 | -$0.66 A | -$0.43 A | -$1.97 A | -$1.66 A | -$4.68 A |
| 2017 | -$0.14 A | -$0.10 A | -$0.16 A | -$0.31 A | -$0.84 A |
| 2018 | -$0.05 E | -$0.06 E | -$0.04 E | -$0.02 E | -$0.17 E |
| 2019 | | | | | -$0.08 E |

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

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## RECENT NEWS

Pareteum's management achieved a successful rescue of the company in 2017 by raising much needed capital and booking significant sales deals. With over $14 million in cash, $600,000 in debt, an EBITDA positive operation, and a 36-month backlog of $200 million, the company is positioned to thrive. So far however the backlog has not yet translated into revenues but we expect those to ramp throughout 2018 and beyond. The company is projecting revenues for 2018 of at least $20 million although profitability may be a ways off. As Vodafone becomes less a percent of sales, and the company sells more cloud-based deals, we expect margins to expand and multiples to rise. This year it is expected that 20% of revenues will come from the cloud as Vodafone still accounts for over 85% of revenues.

Another reason the stock has risen considerably is that **the company was reclassified by the market as a blockchain play**. First investors noticed that **AirFox**, a private company, has been partnered with Pareteum since February 2017. Because of this partnership, AirFox's Mobility Platform was integrated and embedded into Pareteum's Global Mobility Cloud Platform. The partnership stipulates that service revenues, based on subscribers opting into advertising and sponsored brand content on their smartphones, is collected by Airfox and paid to Pareteum. Pareteum then pays participating mobile operators their agreed share of the revenues. Airfox's mobile platform uses AirTokens and the Ethereum blockchain to provide the underbanked in emerging markets with much-needed access to mobile data and financial services. Then on December 26th, Pareteum announced it would offer blockchain technology to its billing and settlement services, and its customers would now be able to accept and process cryptocurrencies. The stock doubled that day to $2.80 following a trading halt.

### 2017 Results

Revenues for 2017 were $13.5 million versus $11.9 million a year ago, up 5.4%. 88% of revenues in 2017 came from Vodafone Spain.

Gross margins increased to 72.8% versus 71.5% a year ago. Gross margin could be down this year due to heavy investing in onboarding the large number of new customers that have been signed.

Operating expenses were $18.7 million versus $28.1 million last year and included one-time charges of $966,000 in the 2017, and $4.0 million in 2016. Ex these one-time charges, expenses were $18 million versus $21 million last year.

Interest expense was $1.7 million versus $1.2 million a year ago. In 2017, $1.4 million of the interest was paid in cash. Total other income was a loss $3.6 million in 2017. Last year other income was a loss of $12.5 million. The net loss for 2017 was $13.7 million versus a loss of $30.7 million in 2016. Currency exchange hurt the bottom line by $1.2 million.

The GAAP EPS loss was $0.84 per share versus a loss of $4.68 per share in 2016. The primary share count increased to 16.3 million shares, almost 2.5 times the 6.6 million shares average for last year. As of March 30, 2017 there are 51.0 million primary shares outstanding.

Given the company is running the business on EBITDA, investors should focus on that metric. For the adjusted EBITDA, taking out one time restructuring costs, was a positive $1.6 million, versus negative $3.9 million a year ago. During the year the company spent $722,000 on capital expenditures. The company continues to rely on stock-based compensation to pay employees and spend $4.3 million in stock-based compensation in 2017 versus $3.9 million last year with most of in in Q4 2017. There were 62 Pareteum employees as of December 31, 2017.

## Q4 Results

Q4 2017 revenues were $4.0 million versus $3.1 million a year ago, up 28%.

Gross margins decreased to 72.5% versus 78.9% a year ago and up from 77.4% in Q3 2017. Expect this margin percent to bounce around depending on product mix and costs associated with adding new customers. We expected gross margin to be down sequentially as new customers were on boarded.

Operating expenses were $7.1 million versus $6.1 million last year and included one-time charges of $125,000 in the 2017 quarter, and a net $1.4 million in the 2016 quarter. Ex these one-time charges, expenses were $6.9 million versus $4.7 million last year. Almost $2 million of the increase was in G&A.

Interest expense was $310,000 versus $372,000 a year ago. In the quarter $459,000 of interest was paid in cash.

Total other income was a loss $3.3 million in 2017. Last year other income was a loss of $7.6 million. The net loss for Q4 2017 was $7.5 million versus a loss of $11.3 million in Q4 2016. Currency exchange hurt the bottom line by $1.2 million.

The GAAP EPS loss was $0.31 per share versus a loss of $1.66 per share in 2016. The primary share count increased to 28.6 million shares, more than four times the 6.6 million shares in last year's quarter. As of March 30, 2017 there are 51.0 million primary shares outstanding.

Given the company is running the business on EBITDA, investors should focus on that metric. For the quarter the adjusted EBITDA, taking out one time restructuring costs, was a positive $708,000, versus $31,000 a year ago. During the quarter the company spent $184,000 on capital expenditures. The company continues to rely on stock-based compensation to pay employees and spend $2.8 million in stock-based compensation in Q4 versus $1.8 million last year.

## Forecasts

We are updating our earnings model to reflect both the December capital raises, the Q4 revenue beat, the new sales wins represented in the ever-increasing backlog, and forward guidance. The 2018 estimate is now for $20 million in revenue and a loss of $0.17 per share. For 2019 we are estimating revenues at $40 million and decreasing the loss per share to $0.08. With the large backlog ramping into revenues throughout 2018, investors await accelerating results going forward.

## Q4 Financing

In Q4, Pareteum was able to raise a total of $20 million and then paid off its $8.1 million senior secured loan from Atalaya Capital Management and Corbin Capital on December 19, 2017. The two capital raising transactions were as follows:

On November 9, 2017, Pareteum sold 9,009,478 shares of common stock, 4,034 shares of preferred stock (each of which shares is an equivalent of 1,000 shares of common stock), and five-year warrants to purchase up to 7,478,228 shares of common stock exercisable at $1.05 per warrant. The offering was priced at $0.92 per share of common stock and $920.00 per share of preferred stock. The Company received net proceeds from the offering of approximately **$10.7 million**, after deducting the applicable underwriting discount and estimated offering expenses payable by the Company.

On December 5, 2017, Pareteum closed on a public offering of common stock and private offering of warrants for gross proceeds of **$6.6 million**. Dawson James Securities was the banker. The company sold 7,151,146 shares of common stock at $0.92 per share, as well as five-year warrants to purchase another 7,151,146 shares of common stock, first exercisable six months from the date of issuance at an exercise price of $1.09 per share.

**After Q4 Ended**

TEUM ended the year with xxx primary shares outstanding. Since then, Atalaya Capital Management and Corbin Mezzanine Fund I executed 2,400,000 warrants and 1,854,156 common shares were issued in January 2018. Another 2,400,449 warrants were exercised resulting in the issuance of 1,782,329 common shares and **raised $2,542,249** in cash through March 30, 2018. As of March 30, there are 51 million primary shares outstanding.

Because of these transactions, the company now has 51 million primary shares outstanding and fully diluted shares of 74.6 million shares using the treasury stock method. This means the company's market cap is now $131 million on a primary basis and the enterprise value is $116 million or 5.8 times 2018 estimated sales. On a diluted basis, that market cap is $182 million or 9.1 times 2018 estimated sales.

**Backlog Recap**

The company revealed its backlog (which it defines and a rolling 36-month sum of potential revenues based on currently signed contracts,) now **stands at $200 million.** This is up from $30 million at September 30th of 2016.

In 2017 Vodafone Spain contributed $12 million of the $13.5 million in revenues. This revenue should remain stable and likely grow somewhat, however, the major drivers of revenue growth in 2018 are expected to be from four large contracts:

- A **$24 million** deal with a Ukrainian MVNO announced in September. It has broad holdings in the telecommunications, broadcasting, real estate, and industrial markets. Pareteum signed a five-year agreement to provide its managed services platform to this customer. The telco will be able to provide wireless services to existing and new Mobile Virtual Network Operators (MVNOs.). This customer is expected to be live in Q3 2018 and has 2 million subscribers. Pareteum expects this telco to generate approximately $24 million in revenues for Pareteum over the first three years, and expects the five-year value of the contract to possibly be $48 million.

- A five-year agreement with a leading telecommunications company in Sub-Saharan Africa to provide its Managed Services Platform. Pareteum is scheduled to generate approximately **$12 million** in revenue from this agreement in the first three years. This telco will provide wireless services to existing and new MVNOs in its geographic market. On-boarding of subscribers is expected to commence in the second quarter of 2018.

- A **€8.7 million** five-year MVNE agreement with a new EMEA customer signed by Pareteum Europe. This customer has existing customers that will be ported over to TEUM.

- The 5-year **$15 million** contract to provide Managed Service Platform (MSP) services to an Africa-based Mobile Virtual Network Operator (MVNO) for a private label offering. It will provide fully integrated mobile and data services in multiple African countries and include digital wallet solutions incorporating blockchain technology.

## KEY POINTS

- Pareteum has been transformed into a completely restructured, EBITDA positive entity. It now has a $16 million revenue run rate, $15 million in cash, considerable invested software development expense, a large backlog, and a seasoned management team.

- Its Q4 capital raise of $20 million gave the company much needed working capital and cash to execute on its plan. After the quarter ended it raised another $2.5 million from the exercise of warrants.

- 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 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.

- As the company moves services to the cloud, it should be increasingly viewed as a SaaS company in the telecommunications field. As such it should command a higher multiple than its traditional MVNE peers.

- The company trades at a market value of $124 million using 51.0 million primary shares, which equates to about a $117 million enterprise value. This is 2.9 times 2019 estimated revenues.

## VALUATION

While there are many MVNEs worldwide, many are private. Those that are public are all small except for Amdocs (DOX) an $8.6 billion company and Ericsson (ERIC) at $20 billion. On average they trade at 1.3 times enterprise value to sales. Using the EV/Sales average of 1.6X and using 2018 revenues gets us to an enterprise value of $32 million.

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 three times this group.

**MVNEs**

| | | Revenue | | EBIDTA | | Enterprise Value / Sales | | Included | Enterprise |
|---|---|---|---|---|---|---|---|---|---|
| Company | Ticker | 2018E | LTM | Margin | EV/TTM EBIDTA | 2018E | LTM | in Average? | Value |
| Amdocs | DOX | $3,973 | $3,890 | 19% | 12.0x | 2.2x | 2.2x | y | 8,640 |
| Redknee Solutions | RKN.TO | NA | $135 | -19% | -9.9x | NA | 1.32x | n | 178 |
| CSG Systems | CSGS | $807 | $790 | 18% | 11.1x | 1.9x | 2.0x | y | 1,550 |
| MER Telemanagement Soli | MTSL | NA | $11 | -4% | -11.7x | NA | 0.4x | n | 4 |
| Ericsson | ERIC | $23,720 | $24,650 | -3% | 40.3x | 0.8x | 0.8x | y | 19,910 |
| **Average** | | | | **11%** | 17.2x | **1.6x** | **1.7x** | | **$10,033** |

When looking at the SaaS providers, the average multiple is much higher at 5.9xs estimated 2018 sales. As TEUM moves to a higher percentage of sales received from its SaaS offering, its multiple should expand. The company believes as much as 20% of 2018 revenues could come from its new cloud services. If we use that as a proxy for SaaS, then 20% of 5.9x and 80% of 1.6x gives a blended multiple of 2.5 times. If we believe 50% of 2019 revenues would be cloud based, that blended multiple is 3.75 times. Using $40 million 2019 revenues and 3.75Xs yields an enterprise value of $150 million, a market value of $165 million and a **stock price of $2.22 per share** using 74.6 million fully diluted shares outstanding**.**

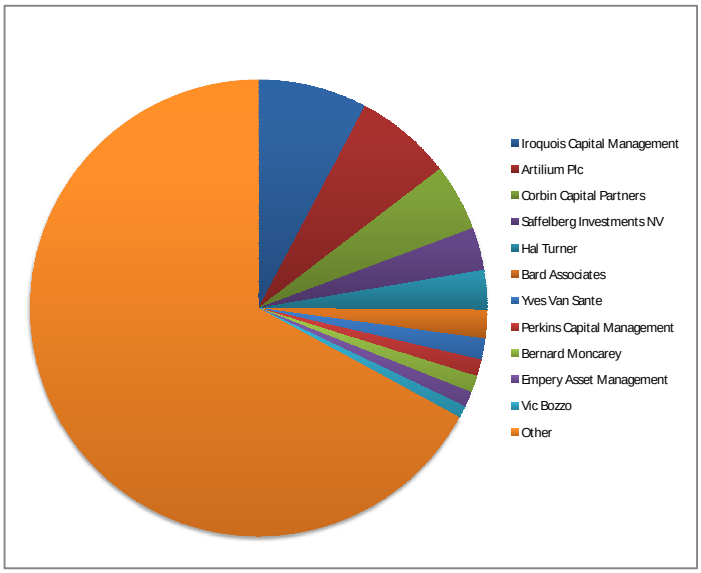
| Company | Ticker | Revenue 2018E | Revenue LTM | TTM EBITDA | Enterprise Value / Sales 2017E | Enterprise Value / Sales LTM | EV/ EBITDA | Included in Average? | Enterprise Value |
|---|---|---|---|---|---|---|---|---|---|
| Amber Road | AMBR | $86 | $79 | -$8 | 3.1x | 3.4x | -32.6x | y | 265 |
| Bazaarvoice | BV | $210 | $206 | $1 | 1.9x | 2.0x | 462.7x | y | 406 |
| Calidus | CALD | $300 | $253 | -$6 | 7.5x | 8.9x | -404.7x | y | 2,250 |
| Castlight Hea | CSLT | $153 | $131 | -$55 | 2.6x | 3.0x | -7.1x | y | 393 |
| Gridsum | GSUM | $158 | $83 | -$11 | 1.7x | 3.2x | -25.4x | y | 267 |
| Hubspot | HUBS | $484 | $376 | -$31 | 9.0x | 11.6x | -141.4x | y | 4,340 |
| LivePerson In | LPSN | $239 | $219 | $10 | 3.6x | 4.0x | 91.5x | y | 870 |
| Q2 Holdings | QTWO | $235 | $194 | -$15 | 8.0x | 9.7x | -126.2x | y | 1,880 |
| Shopify | SHOP | $998 | $673 | -$33 | 13.7x | 20.2x | -417.8x | y | 13,620 |
| Splunk | SPLK | $1,630 | $1,270 | -$218 | 8.6x | 11.0x | -64.1x | y | 13,980 |
| SPS Comme | SPSC | $243 | $221 | $20 | 3.9x | 4.3x | 47.1x | y | 952 |
| Twilio | TWLO | $512 | $399 | -$54 | 7.1x | 9.1x | -67.0x | y | 3,630 |
| Upland Softw | UPLD | $122 | $98 | $16 | 5.8x | 7.3x | 44.9x | y | 715 |
| Wix | WIX | $594 | $426 | -$44 | 6.3x | 8.9x | -85.0x | y | 3,770 |
| **Average** | | | | **-30.5x** | **5.9x** | **7.6x** | **-51.8x** | | **3,381** |

## RISKS

- The company is trying to execute on a new business plan and has generated a large backlog. Management must now satisfy these new customers as expected and continue to grow.
- 88% of revenues in 2017 were from one customer, Vodafone Spain. Going forward that revenue stream will diversify, but now it is still concentrated in that one customer.
- There is currency risk as most of the company's operations are in Euros.
- The industry is fragmented and very competitive with many providers much bigger and with greater resources than Pareteum. While much improved, customers may be unwilling to do business with Pareteum due to its small size.

## OWNERSHIP

There are 51 million primary shares outstanding as of March 30, 2018.



## PROJECTED INCOME STATEMENT

| Pareteum Corporation | Q1 2017 31-Mar | Q2 2017 30-Jun | Q3 2017 30-Sep | Q4 2017 31-Dec | Q1 2018E 31-Mar | Q2 2018E 30-Jun | Q3 2018E 30-Sep | Q4 2018E 31-Dec | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **2.8** | **3.2** | **3.5** | **4.0** | **4.0** | **4.2** | **5.0** | **7.0** | **12.9** | **13.5** | **20.2** | **40.0** |
| Yr-to-yr Growth | -15% | -1% | 10% | 28% | 43% | 30% | 43% | 74% | -58.6% | 5.4% | 49.1% | 98.0% |
| Cost of services | 0.8 | 0.9 | 0.8 | 1.1 | 1.1 | 1.2 | 1.4 | 2.0 | 3.7 | 3.7 | 5.7 | 10.8 |
| Gross profit | 2.0 | 2.3 | 2.7 | 2.9 | 2.9 | 3.0 | 3.6 | 5.0 | 9.2 | 9.9 | 14.5 | 29.2 |
| Gross Margin | 69.9% | 70.8% | 77.4% | 72.5% | 72.0% | 72.0% | 72.0% | 72.0% | 71.5% | 72.8% | 72.0% | 73.0% |
| **Operating expenses:** | | | | | | | | | | | | |
| Product Development | 0.3 | 0.3 | 0.5 | 0.4 | 0.6 | 0.6 | 0.7 | 0.8 | 3.5 | 1.5 | 2.7 | 5.4 |
| Sales and Marketing | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.8 | 1.3 | 1.6 | 2.4 | 4.8 |
| G&A | 2.4 | 1.5 | 1.6 | 4.7 | 2.9 | 3.9 | 2.9 | 2.9 | 11.7 | 10.1 | 12.5 | 18.8 |
| Depreciation and Amortization | 0.8 | 0.9 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 4.2 | 4.5 | 5.5 | 6.5 |
| **Restructuring charge** | 0.1 | 0.5 | 0.3 | 0.1 | - | - | - | - | 1.6 | 1.0 | - | - |
| **Impairment for assets held and used** | - | - | - | - | - | - | - | - | 0.9 | - | - | - |
| **Impairment of goodwill** | - | - | - | - | - | - | - | - | 3.2 | - | - | - |
| **Loss on sale of assets** | - | - | - | - | - | - | - | - | 1.5 | - | - | - |
| Total operating expenses | 3.9 | 3.5 | 4.2 | 7.1 | 5.3 | 6.4 | 5.6 | 5.9 | 28.1 | 18.7 | 23.2 | 35.5 |
| | | | | | | | | | 21 | 18 | | |
| Operating income: | (2.0) | (1.2) | (1.5) | (4.2) | (2.5) | (3.3) | (2.0) | (0.9) | (18.9) | (8.8) | (8.6) | (6.3) |
| Operating margin | -71.2% | -36.3% | -41.9% | -103.5% | -61.6% | -79.6% | -39.3% | -12.4% | -147.0% | -64.9% | -42.8% | -15.7% |
| **Other income:** | | | | | | | | | | | | |
| Interest income | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | - | - |
| Interest expense | (0.5) | (0.4) | (0.4) | (0.3) | - | - | - | - | (1.2) | (1.7) | - | - |
| Int exp. for debt discount & converstion feature | (1.0) | (0.3) | (0.2) | (1.9) | - | - | - | - | (6.0) | (3.4) | - | - |
| Change in derivative liabilities | 1.9 | - | - | (1.1) | - | - | - | - | (3.3) | 0.8 | - | - |
| Change in fair value of warrant liabilities | - | - | - | - | - | - | - | - | - | - | - | - |
| Amort of debt discount & def. financing debt | 0.5 | - | (0.3) | 0.0 | - | - | - | - | (0.5) | 0.2 | - | - |
| Other income | 0.0 | 0.4 | 0.2 | 0.0 | - | - | - | - | (0.2) | 0.7 | - | - |
| Amortization of deferred financing costs | (0.2) | (0.0) | (0.0) | (0.1) | (0.2) | (0.0) | (0.0) | (0.0) | (1.3) | (0.3) | - | - |
| Total other income | 0.7 | (0.2) | (0.7) | (3.3) | (0.2) | 0.0 | 0.0 | 0.0 | (12.5) | (3.6) | - | - |
| Income before income taxes | (1.3) | (1.4) | (2.2) | (7.5) | (2.6) | (3.3) | (1.9) | (0.8) | (31.4) | (12.4) | (8.6) | (6.3) |
| Provision for income tax | 0.0 | (0.1) | 0.1 | 0.0 | 0.0 | (0.1) | 0.1 | 0.0 | 0.0 | 0.1 | - | - |
| Tax rate | 0% | 5% | -7% | 0% | 0% | 2% | -8% | 0% | 0.0% | -3.0% | 0.0% | 0.0% |
| Net income | (1.3) | (1.3) | (2.3) | (7.5) | (2.6) | (3.3) | (2.1) | (0.8) | (31.4) | (12.5) | (8.6) | (6.3) |
| Currency translation | (0.0) | 0.0 | 0.0 | (1.2) | (0.0) | 0.0 | 0.0 | - | 0.7 | (1.2) | - | - |
| Comprehensive loss | (1.3) | (1.3) | (2.3) | (8.7) | (2.6) | (3.2) | (2.1) | (0.8) | (30.7) | (13.7) | (8.6) | (6.3) |
| Stk based compensation | 0.8 | 0.3 | 0.4 | 2.8 | 1.0 | 2.0 | 1.0 | 1.0 | 3.9 | 4.3 | 2.0 | 2.0 |
| One-time expenses | 0.1 | 0.5 | 0.3 | 0.1 | - | - | - | - | 4.0 | 1.0 | - | - |
| Non-GAAP Income | (0.0) | (0.6) | (2.0) | (4.6) | (1.6) | (1.3) | (1.1) | 0.2 | (18.4) | (7.0) | (6.6) | (4.3) |
| Yr-over-Yr | -100% | -62% | -57% | -52% | 13972% | 118% | -44% | -103% | NM | NM | NM | NM |
| **Net income per share:** | | | | | | | | | | | | |
| **Basic** | **(0.14)** | **(0.10)** | **(0.16)** | **(0.31)** | **(0.05)** | **(0.06)** | **(0.04)** | **(0.02)** | **(4.68)** | **(0.84)** | **(0.17)** | **(0.08)** |
| | -100% | -84% | -84% | -92% | 3624% | -42% | -82% | -103% | | | | |
| **Shares** | | | | | | | | | | | | |
| Primary Shares Outstanding | 9.3 | 12.9 | 14.3 | 28.6 | 51.0 | 51.0 | 51.0 | 51.0 | 6.6 | 16.3 | 51.0 | 60.0 |
| Yr-over-Yr | 43.1% | 97.3% | 115.8% | 331.7% | 447.2% | 295.1% | 256.6% | 78.3% | 3.7% | 148.9% | 212.2% | 17.6% |
| Fully diluted shares | 19.8 | 20.0 | 24.2 | 74.6 | 74.6 | 74.6 | 74.6 | 74.6 | 10.0 | 34.6 | 74.6 | 74.6 |
| Yr-over-Yr | 132.4% | 144.8% | 169.6% | 497.9% | 277.9% | 273.2% | 208.4% | 0.1% | 13.3% | 245.7% | 115.5% | 0.0% |
| **Adjusted EBITDA** | **(0.198)** | **0.463** | **0.603** | **0.708** | **(0.081)** | **0.463** | **0.419** | **1.519** | **(3.92)** | **1.58** | **2.32** | **0.21** |
| Cap EX | 0.031 | 0.302 | 0.206 | 0.183 | 0.183 | 0.300 | 0.300 | 0.300 | 1.41 | 0.72 | 1.08 | 1.50 |
| Free cash flow | (0.23) | 0.16 | 0.40 | 0.52 | (0.26) | 0.16 | 0.12 | 1.22 | (5.34) | 0.86 | 1.24 | (1.29) |

# QUARTERLY CASH FLOW

| | 31-Mar-16 | 30-Jun-16 | 30-Sep-16 | 31-Dec-16 | YR 2016 | 31-Mar-17 | 30-Jun-17 | 30-Sep-17 | 31-Dec-17 | YR 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | | | | | | |
| Net loss | (4,313,790) | (2,823,231) | (13,038,301) | (11,269,382) | (31,444,704) | (1,293,140) | (1,342,800) | (2,309,305) | (7,517,734) | (12,462,979) |
| **Adjustments to reconcile net loss to net cash provided by (used in) operating activities:** | | | | | | | | | | |
| Depreciation and amortization | 1,097,604 | 1,113,947 | 1,108,553 | 926,683 | 4,246,787 | 843,783 | 872,693 | 1,432,712 | 1,383,921 | 4,533,109 |
| Provision for doubtful accounts | - | (279,740) | 279,740 | (88,528) | (88,528) | 4,451 | 1,927 | - | (3,533) | 2,845 |
| Stock based compensation | 944,024 | 362,107 | 796,309 | 1,794,997 | 3,897,437 | 818,286 | 305,007 | 385,242 | 2,780,498 | 4,289,033 |
| Change in fair value of warrant liability | (518,986) | (140,950) | 735,902 | 3,240,233 | 3,316,199 | (1,920,881) | - | - | 1,126,190 | (794,691) |
| Amortization of deferred financing costs | 136,929 | 145,366 | 568,246 | 416,532 | 1,267,073 | 196,113 | 26,510 | 25,595 | 93,136 | 341,354 |
| Interest expense relating to debt discount and conversion feature | 351,799 | 261,345 | 2,319,679 | 3,108,784 | 6,041,607 | 1,049,236 | 293,362 | 205,842 | 1,860,295 | 3,408,735 |
| Other income | (221,640) | 109,080 | (101,328) | 434,815 | 220,927 | - | - | - | - | - |
| Unrealized foreign currency translation gain (loss) | (221,640) | 109,080 | - | 188,302 | 188,302 | (36,818) | (433,658) | (216,002) | 686,478 | - |
| Extinguishment of Debt | - | - | 443,426 | 98,473 | 541,899 | (463,345) | - | 299,511 | 163,834 | - |
| Payables settled by issuance of shares | | | | | | - | 473,692 | 50,773 | 259,589 | 784,054 |
| Impairments for assets held and used | - | - | 850,985 | - | 850,985 | - | - | - | - | - |
| Impairment of goodwill | - | - | 3,228,930 | - | 3,228,930 | - | - | - | - | - |
| Loss on sale of assets | - | - | 1,746,905 | (204,531) | 1,542,374 | - | - | - | - | - |
| **Changes in operating assets and liabilities:** | | | | | | | | | | |
| Decrease (increase) in accounts receivable | 35,624 | 632,975 | 118,007 | (165,074) | 621,532 | 4,343 | 354,670 | (86,085) | (1,719,387) | (1,446,459) |
| Decrease (increase) in prepaid expenses, deposits and other assets | 63,095 | 613,920 | 572,248 | 387,743 | 1,637,006 | (209,030) | 653,292 | 310,774 | (114,558) | 640,478 |
| Increase (decrease) in accounts payable and customer deposits | 571,047 | 77,819 | 59,386 | (627,732) | 80,520 | 370,494 | 95,519 | (191,983) | (623,069) | (349,039) |
| Increase (decrease) in deferred revenue | (136,050) | (151,196) | (422,650) | (459,240) | (1,169,136) | (6,755) | (406,174) | (226,621) | (190,564) | (830,114) |
| Increase (decrease) in accrued expenses and other payables | 78,570 | 618,319 | (352,321) | 1,206,693 | 1,551,261 | (594,793) | (467,100) | (278,953) | 608,360 | (732,486) |
| Increase (decrease) in non-cash accrued expenses related to extinguishment of Debt | - | - | - | - | - | - | - | - | - | - |
| Net cash provided by (used in) operating activities | (2,133,414) | 648,841 | (1,086,284) | (1,011,232) | (3,469,529) | (1,238,056) | 426,940 | (598,500) | (1,206,544) | (2,616,160) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | | | | | | |
| **Purchases of property and equipment** | **(765,955)** | **(563,656)** | **(52,516)** | **(31,033)** | **(1,413,160)** | **(30,924)** | **(301,706)** | **(205,615)** | **(183,578)** | **(721,823)** |
| Advance purchase payment on 'Assets held for sale" | 450,000 | - | 450,000 | - | 450,000 | - | - | - | | - |
| Proceeds from sale of assets | - | - | 2,000,000 | - | 2,000,000 | - | - | - | | - |
| Net cash used in investing activities | (315,955) | (563,656) | 2,397,484 | (31,033) | 1,036,840 | (30,924) | (301,706) | (205,615) | (183,578) | (721,823) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | | | | | | |
| Financing related fees | - | (445,249) | (982,718) | 1,427,967 | - | (368,726) | 3,785 | (216,650) | 581,591 | - |
| Debt finance costs | | | | | - | - | - | - | 10,999 | - |
| Financing receivable | 355,000 | - | - | - | 355,000 | - | - | - | - | - |
| Exercise of warrants and options | - | - | - | - | - | - | - | **1,150,000** | 3,899,905 | 5,049,905 |
| Equity and debt issuance costs paid | (360,249) | 360,249 | - | (1,338,821) | (1,338,821) | - | - | - | (227,584) | (227,584) |
| Principal payment on 2014 10% LIBOR 3rd Party Loan | (85,000) | (330,098) | (466,711) | (85,000) | (966,809) | - | - | - | - | - |
| Proceed from 9% Unsecured Sub Convertible Note | 2,273,000 | - | - | - | 2,273,000 | - | - | - | - | - |
| Unsecured promissory note | | | 350,000 | - | 350,000 | - | - | - | - | - |
| Payments on obligations under capital leases | - | - | - | - | - | - | - | **(10,813)** | 10,813 | - |
| Gross proceed from Preferred A shares issuance | | | 1,490,000 | 1,000,000 | 2,490,000 | - | - | - | - | - |
| Advance subordinated short term loan | - | 350,000 | (350,000) | - | - | - | - | - | - | - |
| Gross proceeds from public offering | - | - | - | - | - | 3,500,000 | - | - | 17,702,239 | 21,202,239 |
| Reclassify accrued interest to principal | | | | - | - | - | - | - | (83,634) | (83,634) |
| Principal repayment of Senior Secured Loan | - | - | - | - | - | (1,500,000) | (250,000) | (250,000) | (8,081,836) | (10,081,836) |
| Advanced payment on "Assets held for sale" | - | 450,000 | (450,000) | - | - | - | - | - | - | - |
| Net cash provided by financing activities | 2,182,751 | (65,098) | (409,429) | 1,004,146 | 3,162,370 | 1,631,274 | (246,215) | 672,537 | 13,812,493 | 15,859,090 |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | 85,339 | (83,422) | (161,861) | 180,504 | 20,560 | 221,306 | (516,224) | 99,275 | (82,996) | (278,639) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (181,279) | (63,335) | 739,910 | 142,385 | 750,241 | 583,600 | (637,205) | (32,303) | 12,339,375 | 12,242,468 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD | 615,401 | 434,122 | 370,787 | 977,106 | 369,250 | 1,495,207 | 2,078,807 | 1,430,603 | 1,398,300 | 1,495,207 |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | 434,122 | 370,787 | 977,106 | 1,119,491 | 1,119,491 | 2,078,807 | 1,430,603 | 1,398,300 | 13,737,675 | 13,737,675 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:** | | | | | | | | | | |
| Cash paid during the period for interest | 233,864 | 233,864 | 218,668 | 231,499 | 909,637 | 319,328 | 16,865 | 570,397 | 458,547 | 1,365,137 |
| Conversion of notes including accel. Amortization | - | - | - | - | - | 801,549 | - | (801,549) | - | - |
| Conversion of preferred stock | - | - | - | - | - | - | - | 2,143,196 | (2,143,196) | - |
| Amendments to warrants and conv notes | | | | | | 2,344,948 | - | 359,626 | (2,704,574) | - |
| Conversion of conv notes | - | - | - | - | - | 774,424 | - | (492,480) | (281,944) | - |
| Cash paid during the period for income taxes | - | - | - | 15,581 | 15,581 | - | 895 | 1,454 | 10 | 2,359 |

## BALANCE SHEET

| | Dec 31, 2017 | Sept 30, 2017 | Qtr-Qtr % Change | Dec 31, 2016 | Yr-Yr % Change |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | **$13,537,899** | **$699,659** | 1835% | **$931,189** | 1354% |
| Restricted cash | **199,776** | **698,641** | -71% | **564,018** | -65% |
| Accounts receivable | 2,058,284 | 335,364 | 514% | 614,670 | 235% |
| Prepaid expenses and other current assets | 900,369 | 797,178 | 13% | 1,084,994 | -17% |
| Total current assets | 16,696,328 | 2,530,842 | 560% | 3,194,871 | 423% |
| | | | | | |
| **NON-CURRENT ASSETS** | | | | | |
| OTHER ASSETS | 91,267 | 79,992 | 14% | 129,037 | -29% |
| NOTE RECEIVABLE | 594,520 | 594,428 | 0% | 1,012,603 | -41% |
| PROPERTY AND EQUIPMENT, NET | 4,713,710 | 7,077,635 | -33% | 8,708,778 | -46% |
| LONG TERM INVESTMENTS | 3,230,208 | 0 | NM | 0 | NM |
| TOTAL ASSETS | 25,326,033 | 10,282,897 | 146% | 13,045,289 | 94% |
| | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Accounts payable and customer deposits | 1,978,726 | 2,590,798 | -24% | 2,316,768 | -15% |
| Obligations under capital leases (current portion) | 0 | 0 | 0% | 10,813 | -100% |
| Net billings in excess of revenues | 242,986 | 433,550 | -44% | 951,791 | -74% |
| Accrued expenses and other payables | 5,250,130 | 4,699,533 | 12% | 6,013,620 | -13% |
| 9% Unsecured Sub Convert Promissory Note | 66,000 | 559,403 | NM | 0 | 0% |
| Senior secured loan - ST, net | **0** | **2,000,000** | NM | 0 | 0% |
| 2014 10% + libor 3rd Party Loan | **0** | **0** | 0% | **4,000,000** | -100% |
| Total current liabilities | 7,537,842 | 10,283,284 | -27% | 13,292,992 | -43% |
| | | | | | |
| **LONG TERM LIABILITIES** | | | | | |
| Derivative Liabilities | 1,597,647 | 471,458 | NM | 4,265,829 | -63% |
| Non-current portion of net billings in excess of revenues | 0 | 0 | 0% | 121,309 | -100% |
| Other long term liabilities | 151,163 | 166,220 | -9% | 192,980 | -22% |
| 9% Sub Conv Promissory Note | **617,848** | **89,488** | 590% | **821,048** | -25% |
| Senior secured loan - LT, net | **0** | **4,150,890** | -100% | **3,715,662** | -100% |
| Total long term liabilities | 2,366,658 | 4,878,056 | -51% | 9,116,828 | -74% |
| Total liabilities | 9,904,500 | 15,161,340 | -35% | 22,409,820 | -56% |
| Commitments and Contingencies (See Notes) | | | | | |
| **STOCKHOLDERS' EQUITY** | | | | | |
| Preferred Stock | 0 | 0 | 0% | 2,143,196 | -100% |
| Common Stock | 321,272,437 | 292,242,457 | 10% | 280,653,362 | 14% |
| Accumulated other comprehensive income (loss) | (6,306,691) | (5,095,421) | 24% | (5,086,902) | 24% |
| Accumulated deficit | (299,543,213) | (292,025,479) | 3% | (287,080,234) | 4% |
| Pareteum Corp stockholder's equity | 15,422,533 | (4,878,443) | -416% | (9,370,578) | -265% |
| NON-CONTROLLING INTEREST | 0 | 0 | 0% | 6,047 | NM |
| Total stockholder's equity | 15,422,533 | (4,878,443) | | (9,364,531) | -265% |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $25,327,033 | 10,282,897 | 146% | 13,045,289 | 94% |
| | | | | | |
| Current and Quick Ratio | 2.2 | 0.2 | 800% | 0.2 | 822% |
| Working Capital | 9,158,486 | (7,752,442) | -218% | (10,098,121) | -191% |
| Total Debt | 683,848 | 6,799,781 | -90% | 8,536,710 | -92% |
| TD/TA | 3% | 66% | -96% | 65% | -96% |

## HISTORICAL STOCK PRICE



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