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Zacks Small-Cap Research

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Inuvo Inc. (INUV-AMEX)

S-4 Filing Provides Financials on ConversionPoint Technologies

Inuvo has accepted an offer to be acquired for $2.22 paid with both cash and stock by ConversionPoint Technologies, a private company that plans to list on NASDAQ.

Current Price (12/19/18)	$1.18
Valuation	**$2.22**

OUTLOOK

Inuvo, a digital publishing, and advertising technology company, capitalizing on its newly enhanced ad platform, *INUVO Exchange*, and its expanded sales and marketing team. It has accepted an offer to be acquired by ConversionPoint Technologies, which should close in Q1 2019 upon approval by the SEC and shareholders.

SUMMARY DATA

52-Week High	**$1.36**
52-Week Low	**$0.40**
One-Year Return (%)	**42.2**
Beta	**1.2**
Average Daily Volume (sh)	**114,613**
Shares Outstanding (mil)	**32.4**
Market Capitalization ($mil)	**$38**
Short Interest Ratio (days)	**1.0**
Institutional Ownership (%)	**20**
Insider Ownership (%)	**18**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**13.2**
Earnings Per Share (%)	**8.5**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small Blend**
Industry	**Internet-Services**

ZACKS ESTIMATES*

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	18.7 A	15.6 A	17.5 A	19.7 A	71.5 A
2017	17.2 A	18.3 A	20.3 A	23.8 A	79.6 A
2018	20.5 A	19.0 A	16.8 A	00.0 E	00.0 E
2019					00.0 E

Earnings Per Share
(Non-GAAP EPS from continuing operations)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	$0.03 A	-$0.01 A	-$0.00 A	-$0.00 A	-$0.01 A
2017	-$0.04 A	-$0.02 A	-$0.02 A	-$0.00 A	-$0.09 A
2018	-$0.04 A	-$0.03 A	-$0.04 A	$0.00 E	$0.00 E
2019					$0.00 E

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

* Estimates under review

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WHAT'S NEW

S-4 Shows ConversionPoint and Pro Forma Financials

The S-4 was filed for Inuvo's merger with ConversionPoint and we now have some financial and product information on privately held ConversionPoint.

ConversionPoint was founded in 2016 in Newport Beach, CA and currently has 96 employees. It purchased two companies in 2017: Branded Response, an e-commerce seller of health, wellness and beauty products and Minneapolis-based Push Interactive, LLC, a direct-to-consumer marketing company.

Push's technology platform served as the foundation for its unified e-commerce solution for managing its internal e-commerce product campaigns, campaigns for third parties, and for licensing as a self-serve SaaS. ConversionPoint then acquired SellPoints, in December of 2017. SellPoints had a suite of software solutions enabling brands to create and syndicate rich media content to a network of online retailers, track online consumer behavior, retarget consumers based on their online behavior, and deliver robust data analytics and reporting.

Today ConversionPoint serves customers across a wide range of industries and geographies including both traditional and online retailers, and small and large brands, such as Canon USA, Intel, Brother, FujiFilm and Nikon. It has long-standing relationships with Wal-Mart, Lowes, Costco and other major online retailers. These customers integrate ConversionPoint's JavaScript tags into their online retail store web pages, allowing ConversionPoint's brand customers to directly publish interactive experiences and product information to retail websites. Management has identified a number of specific near-term revenue opportunities by combining with Inuvo, including upselling Inuvo's high-margin AI powered IntentKey media to ConversionPoint's existing enterprise customers and online retail partners, as well as integrating ValidClick and creating a new traffic acquisition source for them.

ConversionPoint says it competes with Optimizely and Volume in the digital media optimization space; Salsify and WebCollage in the rich content creation and product information syndication space; Limelight Networks (LLNW) and ClickFunnels in the sales conversion space; AdRoll and Criteo (CRTO) in the remarketing space; and Narvar and ShipStation (acquired by Stamps.com- STMP) in the shipping and logistics space.

ConversionPoint was said to be valued at $146 million in its most recent $11.3 million private company transaction. It generated $49.9 million in sales in 2017. For the first nine months of 2018 its sales were $28.6 million, down from $39.2 million in 2017. The entire decline in revenues was from e-Commerce products, an area the company is deemphasizing. In 2017 eCommerce was $41.7 million in revenues. In the first nine months of 2018 it was $16.1 million versus $35.8 million in the first nine months of 2017.

	2016	2017	9 mo Ending 9/30/2017	9 mo Ending 9/30/2018
Inuvo Revenue	$71.5	$79.6	$55.8	$56.3
eCommerce Products	$8.8	$41.7	$35.8	$16.1
Managed Services	$0.0	$8.0	$3.3	$9.8
SaaS	$0.0	$0.3	$0.0	$2.7
ConversionPoint	$8.8	$49.9	$39.2	$28.6
Total	**$80.3**	**$129.5**	**$95.0**	**$84.9**
Yr-to-yr Growth		61%		-11%

During the first nine months of 2018, ConversionPoint lost $16.7 million; included in the loss was one-time stock-based compensation of $7.3 million.

The ConversionPoint Offer

ConverisonPoints' offer for Inuvo is cash-and-stock valued at approximately $2.22 per share. Inuvo shareholders are to receive $0.45 per share in cash, and stock valued at an estimated $1.77 per share, or approximately $75.5 million in total consideration. ConversionPoint filed a Form S-4 to register the shares of common stock to be issued in the acquisition and intends to file listing applications for its stock with the NASDAQ Capital Market and the Toronto Stock Exchange. We expect a seamless tax-free transition for INUV shareholders with INUV ending trading on one day and ConversionPoint opening trading the next day under a new ticker. There is a $2.8 million termination fee under certain circumstances should the deal not be completed. The deal, which requires shareholder approval, is expected to close in Q1 of 2019.

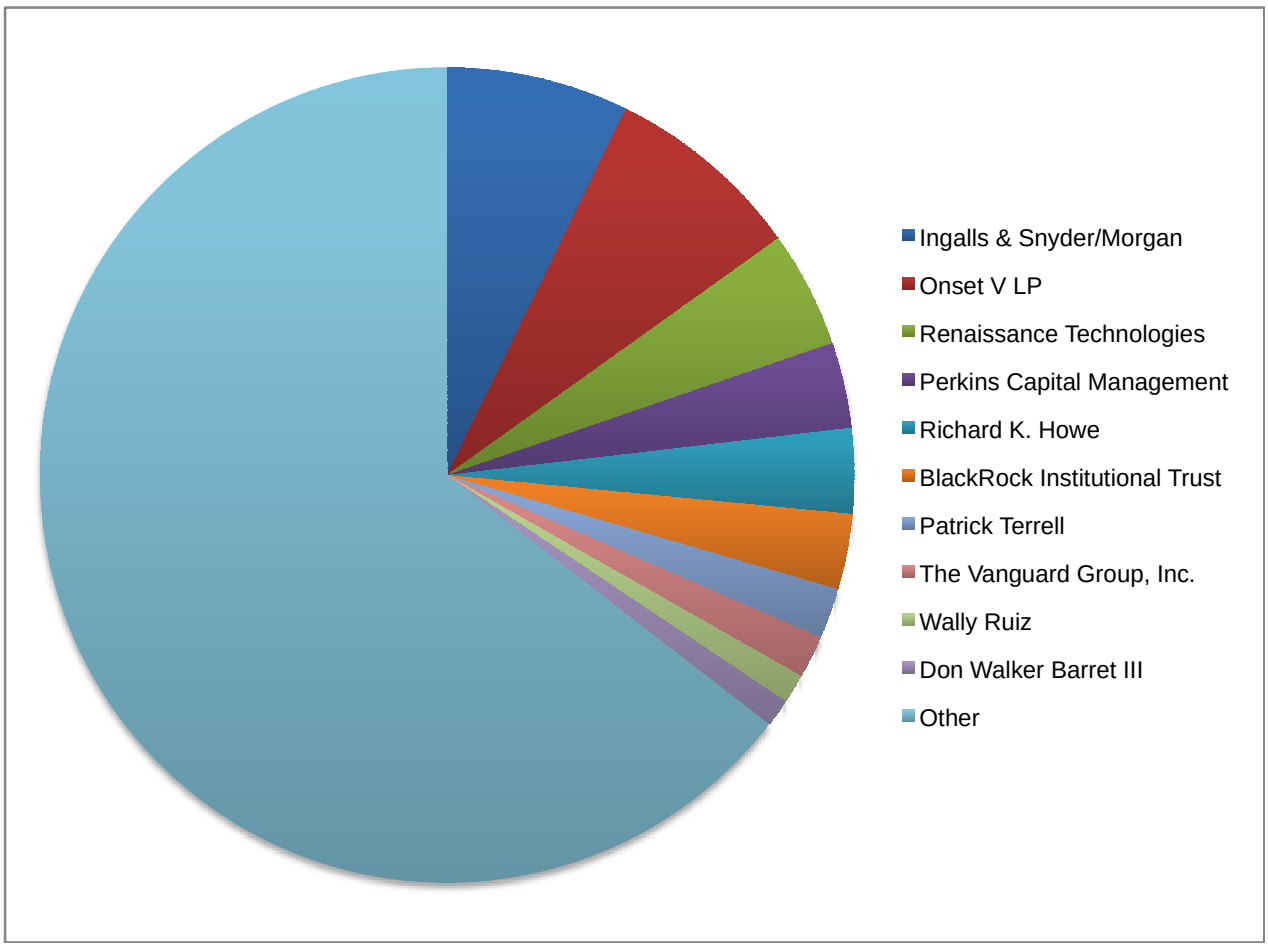
The reason for the merger is not only synergies between the two company's technologies and capabilities which complement each other and create additional revenue at minimal cost, but hope for a higher valuation on the combined company due to positioning. The merger company's capability should be more in line with high flyers like Shopify (SHOP), LiveRamp (RAMP) and The Trade Desk (TTD.)

RISKS

- While Inuvo has accepted an offer to be acquired, it is contingent upon the ability of the combined company to raise $36 million in conjunction with the merger as well as other approvals.
- The combined company may not be profitable and be cash flow negative. The two companies may have difficulty integrating both operations and products.
- There are few barriers to entry in the advertising network business and it typically operates with slim margins with competition mainly on price. Recently the industry has been consolidating.
- Prices paid to Inuvo by Yahoo! dropped in September and have not yet recovered. Yahoo is responsible for 70% of Inuvo's revenues.
- The company's growth is dependent on the success of new products that may not be adopted by new customers as well as integration with its merger partner.
- The digital ad business is very competitive and there is far more inventory of ad space than is needed. There could be continued price pressure that would lower click rates going forward. Much of the ad inventory in the US goes unsold; more inventory could exacerbate this supply-demand imbalance. Thus, Inuvo may have to increase volume of ads sold just to maintain revenues.
- Privacy regulations keep changing, especially in Europe and the company and its competitors have had to adapt to changes, which alters the competitive landscape and how it does business.

OWNERSHIP OF INUVO PRE MERGER

Charles D. Morgan owns 2 million of the shares of the position that is at Ingalls and Snyder. Onset V was the venture capitalist owner of NetSeer, and still owns 2.6 million shares of Inuvo.



PRO FORMA INCOME STATEMENT

	2016	2017	9 mo Ending 9/30/2018
Inuvo Revenue	$71.5	$79.6	$56.3
ConversionPoint	$8.8	$49.9	$28.6
Total	**$80.3**	**$129.5**	**$84.9**
Yr-to-yr Growth		61%	
Total Cost of services	29.3	74.4	41.7
Gross profit	51.0	55.0	43.2
Gross Margin %	71%	69%	77%
Sales and Marketing		35.8	29.6
G&A		26.3	28.7
Amortization		2.8	4.3
Total operating expenses	53.3	64.9	62.6
Operating income:	(2.3)	(9.8)	(19.4)
Operating margin	-3.2%	-12.4%	-34.4%
Other income:			
Interest expense, net	(0.2)	(0.5)	(0.8)
Total other income	(0.2)	(0.5)	(0.8)
Income before income taxes	(2.5)	(10.3)	(20.2)
Pretax Margin	-3.5%	-13.0%	-35.8%
Income tax benefit	(0.0)	(2.3)	(0.0)
Tax rate	1.2%	22.1%	0%
Net income from continuing operations	(2.5)	(8.1)	(20.2)
Net income from discontinued operations	0.2	(0.0)	-
Net income	(2.3)	(8.1)	(20.2)
Foreign currency valuation	-	-	-
Comprehensive income	(2.3)	(8.1)	(20.2)
Stk based compensation	1.3	1.3	7.3
One-time expenses	(0.0)	(0.8)	0.3
Non-GAAP Income	(1.2)	(7.6)	(12.6)
Net income per share:			
Basic EPS	(0.11)	(0.37)	(0.92)
Non-GAAP EPS	(0.05)	(0.34)	(0.57)
Average Shares Outstanding	22.0	22.0	22.0

BALANCE SHEET

	Pro Forma Sept 30, 2018	Inuvo Sept 30, 2018
Current assets		
Cash	$18,917,567	$4,190,274
Accounts receivable, net	11,073,497	5,614,031
Inventories	541,990	0
Prepaid expenses and other current assets	719,276	307,256
Total current assets	31,252,330	10,111,561
Property and equipment, net	2,705,641	2,260,967
Other assets		
Goodwill	96,122,187	9,853,342
Intangible assets, net of accumulated amortization	28,307,666	9,779,307
Other assets	249,855	35,171
Total other assets	124,679,708	19,667,820
Total assets	158,637,679	32,040,348
Current liabilities		
Accounts payable	10,948,892	9,021,255
Accrued expenses and other current liabilities	5,007,855	2,456,831
Deferred revenue	1,096,218	0
Revolving credit line - current portion	0	4,825,000
Note payable, related parties	**225,000**	0
Notes payable, current	**1,407,055**	0
Bridge notes payable	**2,395,000**	0
Loan payable	**97,706**	0
Total current liabilities	21,177,726	16,303,086
Long-term liabilities		
Deferred tax liability	2,331,900	2,331,900
Notes payable	**1,055,283**	0
Other long-term liabilities	250,959	250,959
Total long-term liabilities	3,638,142	2,582,859
Total Liabilities	24,815,868	18,885,945
Stockholder's equity		
Common stock, $.001 par value	22,000	25,213
Additional paid-in capital	158,096,939	130,241,873
Accumulated deficit	(24,297,128)	(117,212,407)
Total stockholders' equity	133,821,811	13,154,403
Total liabilities and stockholders' equity	$158,637,679	$32,040,348
Quick Ratio	1.5	0.6
Working Capital	10,074,604	(6,191,525)
Net cash	18,917,567	(634,726)
Net cash as % of assets	12%	-2%
Net cash per share	$0.86	-$0.02
Total debt	5,180,044	4,825,000
Debt % of assets	3%	15%

CASH FLOW – Inuvo Only

	Year 2016	3 Mo. Ended 3/31/17	3 Mo. Ended 6/30/17	3 Mo. Ended 9/30/17	3 Mo. Ended 12/31/17	Year 2017	3 Mo. Ended 3/31/18	3 Mo. Ended 6/30/18	3 Mo. Ended 9/30/18
Operating activities:									
Net income	(772,584)	(1,693,054)	(1,382,371)	(986,170)	1,003,895	(3,057,700)	(1,408,024)	(832,697)	(1,441,650)
Adjustments to reconcile net income to net cash provided by operating activities:									
Settlement of tax liability	-	-	-	-	-	-	-	-	-
Depreciation and amortization	2,209,738	693,175	741,692	804,631	790,303	3,029,801	791,644	785,416	794,898
Deferred income taxes	(61,100)	-	-	-	(1,406,600)	(1,406,600)	-	-	-
Amortization of financing fees	25,600	6,400	6,400	6,400	6,400	25,600	6,400	6,400	6,400
Adjustment of European liabilities related to discontinued operations	(176,988)	1,109	-	-	-	1,109	-	-	-
Provision of doubtful accounts	5,800	-	141,000	(2,211)	(78,000)	60,789	-	(10,062)	(30,000)
Stock based compensation	1,264,266	292,334	293,825	336,913	356,735	1,279,807	377,847	289,950	159,798
Write-off of publisher payable	-	-	-	-	315,137	315,137		-	-
Change in operating assets and liabilities:									
Accounts receivable and unbilled revenue	(583,082)	2,740,326	(680,496)	(2,296,908)	(979,533)	(1,216,611)	3,300,989	(120,808)	2,003,398
Prepaid expenses and other assets	219,656	109,577	(124,826)	96,734	(28,798)	52,687	98,015	(89,799)	66,418
Accounts payable	(622,548)	(2,844,928)	(583,470)	2,328,706	1,536,933	437,241	(2,498,865)	(923,249)	(1,170,684)
Accrued expenses and other liabilities	(420,875)	(989,738)	434,059	(411,874)	298,012	(669,541)	(38,910)	111,515	(518,462)
Other, net	(34,864)	-	-	-	-	-	-	-	-
Net cash used by operating activities	1,053,019	(1,684,799)	(1,154,187)	(123,779)	1,814,484	(1,148,281)	629,096	(783,334)	(129,884)
Investing activities:									
Purchases of equipment and capitalized development costs	(1,116,371)	(151,424)	(469,274)	(442,113)	(495,882)	(1,558,693)	(514,065)	(427,571)	(358,543)
Net cash from NetSeer Asset Acquisition	-	235,763	-	-	-	235,763	-	-	-
Net cash used in investing activities	(1,116,371)	84,339	(469,274)	(442,113)	(495,882)	(1,322,930)	(514,065)	(427,571)	(358,543)
Financing activities:									
Proceeds from sale of common stock	-	-	-	-	-	-	-	2,134,162	(133,579)
Payoff of NetSeer debt acquired	-	(2,015,577)	-	-	-	(2,015,577)	-	-	-
Payments on capital leases	-	-	-	-	(158,782)	(158,782)	(53,839)	(51,747)	105,586
Deposit to collateralize letter of credit	-	-	-	-	-	-	-	-	-
Prepaid financing fees and other	25,600	-	-	-	25,600	25,600	-	-	-
Net taxes paid on RSU grants exercised	(203,836)	-	-	(97,376)	-	(97,376)	-	-	(77,044)
Proceeds from revolving line of credit	7,950,000	3,600,000	1,400,000	-	(100,000)	4,900,000	-	-	(75,000)
Payments on revolving line of credit	(7,950,000)	-	-	-	-	-	-	(900,000)	900,000
Payments on term note payable and capital leases	(46,313)	(7,250)	(19,345)	(70,705)	97,300	-	-	-	(158,650)
Treasury stock repurchase	(22,499)	-	-	(44,772)	-	(44,772)	-	-	-
Net cash used in financing activities	(247,048)	1,577,173	1,380,655	(212,853)	(135,882)	2,609,093	(53,839)	1,182,415	589,306
Effect of exchange rate changes	-	-	-	-	-	-	-	-	-
Net change - cash	(310,400)	(23,287)	(242,806)	(778,745)	1,182,720	137,882	61,192	(28,490)	100,879
Cash, beginning of quarter	3,974,793	3,946,804	3,923,517	3,680,711	2,901,966	3,946,804	4,084,686	4,145,878	4,117,388
Cash, end of period	3,664,393	3,923,517	3,680,711	2,901,966	4,084,686	4,084,686	4,145,878	4,117,388	4,218,267
Supplemental information:									
Interest paid	72,751	25,317	79,745	75,734	88,164	268,960	94,428	89,466	103,480
NetSeer stock issuance	-	4,459,244	-	-	-	4,459,244	-	-	-
Writedown of domain names and cont. liab.	-	222,477	-	-	147,029	369,506	-	-	-
Income taxes paid	26,000	-	-	-	-	-	-	-	-
Purchase of property and equipment under capital lease	-	-	-	523,518	6,889	530,407	-	-	-
Purchase of intangible assets through a contingent liability	-	-	-	-	-	-	-	-	-
Stock issuance for partial settlement of cont. liability *	300,001	-	-	-	-	-	-	-	-
Write down of domain names due to partial settlement of cont. liability	46,367	-	-	-	-	-	-	-	-
Operating Cash Flow	2,494,732	(700,036)	(199,454)	159,563	987,870	247,943	(232,133)	239,007	(510,554)
Free cash flow	1,378,361	(851,460)	(668,728)	(282,550)	491,988	(1,310,750)	(746,198)	(188,564)	(869,097)
Adjusted EBITDA	2,622,669	(663,000)	166,847	252,690	758,130	1,069,601	(145,348)	336,245	(385,786)

CASH FLOW – ConversionPoint Only

	9 Mo. Ended 9/30/17	9 Mo. Ended 9/30/18
Operating activities:		
Net income	3,086,012	(16,773,831)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	659,247	3,365,646
Deferred income taxes	(630,162)	(277,380)
Amortization of debt discount	-	79,368
Stock based compensation	-	7,271,859
Change in operating assets and liabilities:		
Accounts receivable, net	(3,959,063)	(721,803)
Inventory	(56,201)	(290,555)
Prepaid expenses and other assets	(342,619)	(42,976)
Due from related party	(66,900)	80,763
Accounts payable	140,412	(724,159)
Accrued expenses and other liabilities	1,487,801	188,556
Other, net	-	(168,041)
Deferred revenue	-	660,716
Net cash used by operating activities	318,527	(7,351,837)
Investing activities:		
Purchases of property and equipment	(21,785)	(411,990)
Software development costs	-	(1,365,351)
Net cash from acquisition	391,186	-
Settlement paid subsequent to acquisition	-	(125,000)
Issuance of note receivable	(100,000)	-
Collection of note receivable	30,000	25,000
Net cash used in investing activities	299,401	(1,877,341)
Financing activities:		
Principal payments under notes payable	-	(682,251)
Principal payments under loan payable	-	(46,507)
Principal payments under bridge notes payable	-	(550,000)
Principal payments under notes payable- related parties	-	(200,000)
Proceeds from issuance of conv notes payable	2,526,850	-
Proceeds from issuance of notes payable- related party	100,000	-
Proceeds from issuance of conv. notes payable- related party	50,000	-
Payment of costs from issuance of common stock	-	(1,224,978)
Proceeds from issuance of stock	-	12,518,695
Net cash used in financing activities	2,676,850	9,814,959
Net change - cash	3,294,778	585,781
Cash, beginning of quarter	644,930	4,695,803
Cash, end of period	3,939,708	5,281,584
Supplemental information:		
Interest paid	142,430	464,649
Income taxes paid	250,800	5,313
Non-cash investing and financing activities:		
Common stock issued for Push Holdings	18,000,000	-
Common stock cancelled w acquisition of SellPoints	-	(425,000)
Warrants issued to lenders	-	774,839
Notes converted to equity	-	540,714
Stock cancelled for indemnity settlement	-	(125,000)
Accrued cost for issuance of common stock	-	88,451
Operating Cash Flow	3,115,097	(6,334,338)
Free cash flow	3,093,312	(8,111,679)

CASH FLOW – Pro Forma

	CPT 9 Mo. Ended 9/30/18	Inuvo 9 Mo. Ended 9/30/18	Pro Foma
Operating activities:			
Net income	(16,773,831)	(3,682,371)	(20,456,202)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,365,646	2,371,958	5,737,604
Deferred income taxes	(277,380)	-	(277,380)
Amortization of debt discount	79,368	19,200	98,568
Provision for doubtful accounts	-	(40,062)	(40,062)
Stock based compensation	7,271,859	827,595	8,099,454
Change in operating assets and liabilities:			
Accounts receivable, net	(721,803)	5,183,579	4,461,776
Inventory	(290,555)	-	(290,555)
Prepaid expenses and other assets	(42,976)	74,634	31,658
Due from related party	80,763	-	80,763
Accounts payable	(724,159)	(4,592,798)	(5,316,957)
Accrued expenses and other liabilities	188,556	(445,857)	(257,301)
Other, net	(168,041)	-	8,901,474
Deferred revenue	660,716	-	660,716
Net cash used by operating activities	(7,351,837)	(284,122)	1,433,556
Investing activities:			
Purchases of property and equipment	(411,990)	(1,300,179)	(1,712,169)
Software development costs	(1,365,351)	-	(1,365,351)
Net cash from acquisition	-	-	-
Settlement paid subsequent to acquisition	(125,000)	-	(125,000)
Issuance of note receivable	-	-	-
Collection of note receivable	25,000	-	25,000
Net cash used in investing activities	(1,877,341)	(1,300,179)	(3,177,520)
Financing activities:			
Net cash used in financing activities	9,814,959	1,689,889	11,504,848
Net change - cash	585,781	105,588	9,760,884
Cash, beginning of quarter	4,695,803	4,695,803	8,780,489
Cash, end of period	5,281,584	4,801,391	18,541,373
Supplemental information:			
Interest paid	464,649	287,374	752,023
Income taxes paid	5,313	-	5,313
Operating Cash Flow	(6,334,338)	(503,680)	(6,838,018)
Free cash flow	(8,111,679)	(1,803,859)	(9,915,538)

HISTORICAL STOCK PRICE



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