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Zacks Small-Cap Research

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Digerati Technologies (OTCQB: DTGI)

INITIATION: A Roll Up Play in the Fast Growing, Fragmented UCaaS Market

Using peer group average multiples of EV/Estimated Sales, we believe DTGI stock could be worth at least $0.21 per share.

Current Price (08/09/21)	$0.13
Valuation	**$0.21**

OUTLOOK

Digerati is a provider of UCaaS telecommunication services to small and medium businesses in the US. It plans to grow 5-10% internally supplemented by accretive acquisitions. Seasoned telecom executives that have successfully built and sold large public companies in the past lead its management team. Its recent arrangement with Post Road Group enables future acquisitions with prearranged financing terms in place. The company targets companies with $2-$10 million in sales and positive EBITDA in the US. Due to the highly fragmented industry, there are hundreds of companies to pursue.

SUMMARY DATA

52-Week High	**$0.23**
52-Week Low	**$0.03**
One-Year Return (%)	**263**
Beta	**1.5**
Average Daily Volume (sh)	**133,436**
Shares Outstanding (mil)	**137.9**
Market Capitalization ($mil)	**$18**
Short Interest Ratio (days)	**0**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**161.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2021 Estimate	**N/A**
P/E using 2022 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small Growth**
Industry	**Internet-Software**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Oct)	**Q2** (Jan)	**Q3** (Apr)	**Q4** (Jul)	**Year** (Jul)
2019	1.5 A	1.5 A	1.5 A	1.5 A	6.0 A
2020	1.6 A	1.6 A	1.6 A	1.6 A	6.3 A
2021	1.6 A	3.3 A	3.8 A	3.8 E	12.4 E
2022					15.7 E

EPS

	Q1 (Oct)	**Q2** (Jan)	**Q3** (Apr)	**Q4** (Jul)	**Year** (Jul)
2019	-$0.07 A	-$0.17 A	-$0.01 A	-$0.03 A	-$0.27 A
2020	-$0.06 A	-$0.01 A	-$0.02 A	$0.00 A	-$0.06 A
2021	-$0.01 A	-$0.02 A	-$0.09 A	-$0.02 E	-$0.14 E
2022					-$0.06 E

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

KEY POINTS

- Digerati sells Unified Communications as a Service (UCaaS) to SMBs primarily in Texas and Florida. UCaaS brings VoIP, video conferencing, instant messaging, and collaboration tools together on one platform that is hosted in the cloud. As well as being more cost effective and flexible in the office, it allows workers to enjoy all the features of an office-based system remotely and gives businesses more choices in the applications it chooses. Digerati's UCaaS solution also integrates with systems like Microsoft Teams and Oracle NetSuite, becoming the cloud telco engine behind these popular systems.

- UCaaS solutions primarily replace premised- based systems making maintenance and upgrades easier and cheaper for the client. Digerati specializes in providing service with superior customer service to the large telcos that are the usual providers to these businesses.

- Digerati is in the early stages of its roll up strategy funded by its new financing partnership with Post Road Group. In November 2020, it bought Nexogy and ActivePBX for approximately $12 million, the two of which are expected to add at least $8 million in annual sales and $1.5 million in EBITDA. It plans to continue to buy companies opportunistically and accretively.

- Seasoned management that successfully has built and sold other public telecom and software companies and created solid returns for investors runs the company.

- The UCaaS industry is highly fragmented and growing rapidly. Fifty percent of the US market is served by local and regional providers. The global UCaaS market is currently $38.7 billion and expected to be $169 billion by 2027, or a CAGR of 23.5%.

- The company trades at a fully diluted (using 273 million shares) enterprise value of $44 million or 2.9 times its calendar 2021 estimated sales of $15.3 million versus its peers who trade at 7.1 times. As its growth strategy, improved margins, and positive cash flow are evidenced in the future, we believe it could trade closer to the peer group.

OVERVIEW

Digerati is a provider of cloud telecom services founded in 1993 with an initial business model that served markets in Latin America undergoing privatization and de-monopolization of government-owned telecom operations. After evolving as a telecom operator over the years, from legacy telecom infrastructure to Voice over Internet Protocol (VoIP) technology, the Company launched its UCaaS business model targeting the underserved small to medium-sized business market in the U.S. Digerati is headquartered in San Antonio, Texas with additional major operations in Florida and serves the market through its operating subsidiaries, T3 Communications, Inc. and Nexogy, Inc. It employs 47 people all in the US and primarily in Florida and has over 2,600 business customers and with approximately 28,000 total users. It is operating under the T3 Communications (Ft Myers, FL) brand as well as the recently acquired Nexogy and ActivePBX brands both located in Miami and now operating from one location. It plans to merge those brands under one roof in the near future offering a more cohesive marketing front.

The key to Digerati's future success is the ability to make accretive acquisitions. It targets companies with $2 million to $10 million in sales that can be acquired at an accretive price. In the past its acquisitions have cost 0.8xs to 1.5 times trailing twelve-month revenues and are typically 4-5 times EBITDA. The company expects to pay for these deals with approximately 25% through a note to the seller tied to a future revenue hurdle, 25% with stock and 50% through the Post Road financing facility. Post Road charges interest at 12% plus LIBOR rates. Targets usually have EBITDA margins in the 15-25% range that can be increased through cost synergies. Synergies are achieved through personnel redundancies, data center integration, telecom costs migrated to lower cost solutions, and facility consolidations. While most of these savings are achieved within the first six months, it may take a full year for all the savings to be realized.

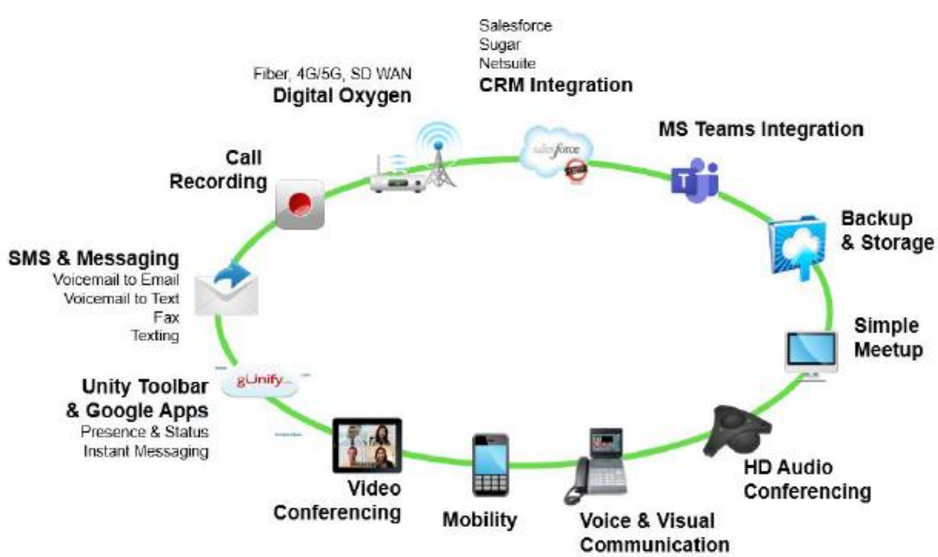
Another benefit of acquisitions is being able to bring in expertise in sub segments of the market. Each provider tends to have its niche and the entire Digerati family benefits from this knowledge and can often cross sell current clients. One example of this is found in new acquisition ActivePBX. It brought with it particular expertise in integrating all major CRMs with a contact center platform including a specific partner agreement with Oracle's NetSuite.

Digerati sells directly as well as through partners that provide the customer support on a local level. This regional local touch is a competitive advantage against nation players and large telcos when serving SMBs. This arrangement leaves Digerati with high operating leverage as the labor intensive, non-scalable part is left to the partners. As an example, Digerati's Nexogy just partnered with Sandler Partners, a master agent and distributor of connectivity and cloud services. Sandler has more than 8,000 partners, 200 telecom, cloud, and data providers, and extensive network of expert agents. Nexogy offers Sandler partners a call path model and the ability for partners to add their own services and products to the customer's invoice.

What is UCaaS?

All businesses buy communications services whether it is as simple as making phone calls and accessing the Internet to sophisticated add-ons such as call center applications and virtual private networks. UCaaS or Unified Communications as a Service combines a company's needs and hosts the solution in the cloud often replacing legacy PBXs that are hardwired and use a switchboard system or simple VOIP systems. Small businesses are often ill equipped to maintain their own systems or find it cheaper to outsource support and have embraced services in the cloud. By moving to a hosted solution, the business also enjoys the benefit of lower communications prices as the vendor had buying power by combining customer volume and negotiating. UCaaS has enjoyed particular success during the pandemic as workers moved off site but still needed the functionality of office-based systems. UCaaS delivered those abilities to the mobile workforce so companies suffered fewer productivity declines. For example, tasks as simple as easily forwarding a call to an available co-worker or team could be nearly impossible when everyone is working off private cell phones rather than a UCaaS solution.

UCaaS applications include those functions shown in the image below and customers pick and chose from available options to fit their needs. Pricing is usually per employee served.



Source: Digerati

INDUSTRY OUTLOOK

MarketsandMarkets expects the global UCaaS market to grow 9.5% per year from $15.8b in 2019 to 24.8B in 2024 while Grand View Research thinks the market size will already be $48 billion in 2021. It expects the market to grow to $210.1 billion by 2028 resulting in a CAGR of 23.6%. Frost & Sullivan reports that 61% of businesses still use a non cloud-based solution, but expects that 38% of those not currently in the cloud will migrate to the cloud in the next two years.

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COMPETITION

Digerati's primary competition comes from the large telecom carriers, Verizon, AT&T, and T-Mobile, traditional PABX vendors, as well as national UCaaS providers. It is typically taking business from carriers who provide less customer support or providing UCaaS solutions to customers still wed to legacy hardware-based systems. The large telecom carriers and national UCaaS providers, who typically experience difficulties moving down market, tend to focus on larger enterprise accounts including those in the Fortune 1000 segment of the market.

The largest UCaaS providers in order of size are: Broadsoft owned by Cisco, Metaswitch acquired by Microsoft last year, Mitel (private), and moving up to number four is now Crexendo due to its recent acquisition of Netsapiens. The hundreds of regional players providing services in limited geographies serve most of the market.

FINANCIALS

FY Nine Months Results

The first nine months of 2021 were greatly impacted by the November acquisition of Nexogy and ActivePBX. In the first quarter ending October 31, 2020, the company actually had a revenue decline of 2.3% year over year. With the acquisitions, quarterly revenue growth more than doubled and the total number of customers increased from 731 on April 30, 2020, to 2,612 customers by April 30, 2021. Upon the acquisitions' anniversary, we expect growth to return to the typical 5-10% organic growth.

For the nine months ending April 30, 2021, revenue grew 83% to $8.6 million versus $4.7 million. Gross margins were 57% versus 50% the year before and we expect continued improvement with continued cost reductions.

SG&A rose 48% to $5.0 million. It would have risen more except for the $551,000 decline in stock-based compensation. In the 2020 FY there were catch up payments for previous years. Legal and professional fees increased $309,000. This year the company incurred $333,000 related to the acquisitions for audits, purchase price allocation calculations, and investor relations. Depreciation and amortization rose $739,000 of which $678,000 was due to the acquired companies.

The operating loss for the nine months ending April 30, 2021 increased to $2.0 million compared to $1.8 million in FY 2020.

In other income the biggest impact came from loss on derivate instruments (non-cash expense) which came in at a loss of $10.9 million in this year's nine months compared to a gain of $69,000 in last year's.

Interest expense doubled to $3.1 million compared to $1.5 million last year due mostly to higher borrowing to fund the acquisitions. Cash interest paid was $753,000 compared to $323,000 in the same period a year ago.

Net income to common shareholders was a loss of $15.5 million versus $3.1 million in the nine months ending April 30, 2020. This resulted in a loss per share of $0.12 compared to a loss of $0.09 a year ago. The average share count more than doubled to 126.4 million versus 41.6 million.

Taking out loss on derivative instruments, gain on settlement of debt and stock-based compensation, the loss would have been $4.4 million versus $2.1 million or loss per share of $0.04 versus $0.09.

Balance Sheet

Digerati ended the April quarter with $2.1 in cash, a negative $22.9 million in working capital and $10.6 million in debt. Its current ratio is only 0.1. Its debt to total assets is 62.2% and its cash flow for the nine months ending April 30, was a negative $1.5 million on an operating basis and its free cash flow a negative $11.8 million which includes acquisitions costing $10.1 million. For the nine months adjusted EBITDA was $626,000, but including cash interest paid of $753,000, it was a negative $112,000.

Once it has fulfilled the other NASDAQ or NYSE American listing requirements, we expect the company would do a capital raise and reverse split to reach the other requirements and raise enough cash to sustain operations to get it through to cash flow breakeven. In its most recent filing, the company stated it needs approximately $65,000 per month of additional working capital to fund corporate expenses during Fiscal 2021.

In November, Post Road Group provided a $20 million financing facility allowing Digerati to buy Nexogy and ActivePBX and provides for financing of future acquisitions. The company used $14 million of the credit facility to pay approximately $9.452 million of the purchase price for Nexogy, $1.19 million for ActivePBX, $1.487 million for outstanding debts owed and accrued interest to three creditors (including the secured creditor Thermo Communication), and the payment of approximately $464,000 back to Post Road. In addition, the company expensed $430,000 in legal fees associated to the acquisitions and financing. In connection with this credit agreement, the company issued a warrant to Post Road Special Opportunity Fund II LP to purchase, initially, 25% of its total shares at $0.01 per share, calculated on a fully-diluted basis and subject to a reduction to 15% upon reaching certain milestones that includes uplisting the company to Nasdaq/NYSE American. This came to a warrant to purchase 107.7 million shares, implying the company had 431 million fully diluted shares conservatively calculated at the time.

VALUATION

In order to value Digerati Technologies, Inc. (the company), we have to look at comparables on a calendar year and a fully diluted enterprise basis. The company has a very complicated cap table and investors should be aware that its fully diluted share count is vastly different than its primary common shares outstanding and that the total common shares will change based on certain events. The company has three series of convertible preferred stock that are forced to convert upon an uplisting, two of which convert based on a percentage of the total common shares outstanding (40%), not a fixed amount.

When the company calculated how many warrants to issue Post Road group in November 2020, it used a worst-case scenario to arrive at 107 million warrants representing 25% of the company's fully diluted stock. This was calculated as of November 2020 and shown in the table below. At that time the fully diluted share count was deemed to be 432 million with Post Road's warrants included.

Since that time the company has issued common stock and secured additional convertible notes so we have updated with the most conservative scenario to 450 million as the share count rose, more convertible notes were issued, and the 40% conversion ratio also added more shares.

The company says that currently Post Road is only entitled to warrants that represent 46 million shares as conditions have not been met to be able to exercise all 107 million warrants. In addition, the convertible preferred stock only converts to 40% of the issued and outstanding. So, our best-case fully diluted current common share count is now 273 million shares.

If the company does an uplisting, or raises more that $5 million using common stock, the convertible preferred stock is forced to convert to common stock and the Post Road percentage is reduced to 15%. At that point, the total common stock outstanding should decrease to 305 million fully diluted. Of course, any capital raise using equity will also add to the count, but not affect the enterprise value.

	Post Road Calculation		Conservative Case Now		Best Case Now		After Uplisting	
Post Road Warrants	107.8	25%	107.8	24%	46.0	17%	46.0	15%
Other warrants	-	0%	2.1	0%	2.1	1%	2.1	1%
Convertible Preferred	172.4	40%	180.0	40%	55.3	20%	87.1	29%
Options	9.2	2%	9.2	2%	9.2	3%	9.2	3%
Convertible Notes	22.3	5%	22.3	5%	22.3	8%	22.3	7%
CS outstanding 11/20	120.0	28%	138.1	31%	138.1	51%	138.1	45%
Total Diluted	**431.7**	**100%**	**449.8**	**100%**	**273.0**	**100%**	**304.8**	**100%**
		100%		102%		100%		100%

The company's plan in a capital raise is to simplify the cap table and we expect if it does raise cash it will pay off the convertible notes which convert at $0.05 per share reducing the outstanding.

Comparable Companies

Digerati's most similar comp is Crexendo, who provides the same service to the same target market. It also competes with RingCentral who in contrast targets large companies with more complex requirements. If we take the average multiples of EV to estimated calendar sales of the comp group (throwing out the high and the low) we get the averages shown below. Using calendar revenues of $15.3 million in 2021 and $15.8 million in 2022, this would value Digerati at an enterprise value of $104 million, a market value of $96 million and a stock price of $0.21 using a conservative 450 million fully diluted shares outstanding.

Company	Ticker	Calendar Revenue 2022E	Calendar Revenue 2021E	Last Qtr Annualized	LTM	EBIDTA Margin		EV/Sales 2022E	EV/Sales 2021E	EV/Sales Annualized	EV/Sales LTM	Included in Average?	Enterprise Value
Cloopen Group Holding	RAAS	221	167	127	130	-73%		1.5	2.0	2.6	2.5	y	327
ClearOne	CLRO	NA	NA	28	30	1%		NA	NA	1.9	1.7	y	53
Crexendo	CXDO	37	26	18	17	7%		2.6	3.8	5.4	5.7	y	97
8x8 Inc.	EGHT	NA	594	579	559	-23%		NA	5.1	5.3	5.5	y	3,050
Five9	FIVN	623	551	575	522	3%		22.6	25.6	24.5	27.0	y	14,106
RingCentral Inc.	RNG	1,860	1,545	1,516	1,370	-6%		13.2	15.9	16.2	17.9	y	24,520
J2 Global	JCOM	1,820	1,700	1,593	1,560	40%		4.3	4.6	4.9	5.0	y	7,748
Lantronix	LTRX	92	70	68	68	2%		1.5	2.0	2.1	2.1	y	140
Ooma	OOMA	203	186	182	174	1%		1.9	2.1	2.1	2.2	y	389
Vonage	VG	1,450	1,350	1,332	1,220	9%		2.9	3.2	3.2	3.5	y	4,275
Zoom	ZM	4,760	4,000	3,825	3,280	30%		23.8	28.3	29.6	34.6	y	113,366
Average							-0.9%	6.3	7.1	7.4	9.8		6,779

	Projected 2022E	Projected Revenue 2021E	TTM		EV/Sales 2022E	EV/Sales 2021E	TTM	Valuation Range Low	Valuation Range High
	15.8	15.3	10.2		6.3	7.1	9.8	100	109
Conclusion of Enterprise Value				$104,365					
Market Value				95,889					
Fully diluted shares				450,000					
Price per Share				**$0.21**					

MANAGEMENT

Arthur L. Smith
President and CEO

Art is the founder of Digerati and he has over 25 years of public company experience with a comprehensive background in technology and global telecommunications. He was also co-founder and Chairman of GlobalSCAPE, Inc. (NYSE: GSB), a leading provider of Internet-based information exchange solutions and former subsidiary of Digerati. GlobalSCAPE was spun-off shareholders as a separate publicly traded entity.

Antonio Estrada Jr.
Chief Financial Officer

Antonio has over 20 years of public company and telecommunications industry experience. Before becoming CFO, he held various roles in finance including International Accounting Manager, Treasurer, Internal Auditor, Controller, and Senior Vice President of Finance. He earned a BA in Accounting from the University of Texas at San Antonio.

Craig K. Clement
Executive Chairman

Craig has over 35 years of executive and board of director experience with technology and oil and gas exploration and production entities. He helped grow telecom provider ATSI Communications, Inc. (formerly AMEX: AI) from ten employees to 500, achieving a public market valuation of $615 million. He was the founding CEO of GlobalSCAPE, Inc. (NYSE: GSB), the former Chief Operating Officer of XPEL Technologies Corp. (TSXV: DAP.U now NASDAQ: XPEL.) He also was the former Chairman of the South Texas Regional Center for Innovation and Commercialization, which screened and supported entrepreneurs through the Emerging Technology Fund managed by the Governor’s office and invested more than $350 million in Texas-based technology start-ups. Craig attended the University of Texas at Austin.

Kenneth E. Ryon
Chief Technical Officer

Ken has more than 20 years of communications industry experience in engineering and technology. He has a proven and successful history in early stage to established profitable growth companies with a rare mix of technology, product, and business experience across multiple functional areas of operations. Ken has been named as the inventor on three VoIP Patents awarded in the U.S. He is currently on the board of Answer360 Telecommunications.

Felipe Lahrssen
Executive VP of Sales & Operations

As the co-founder and COO at Nexogy, Felipe is responsible for the operations and strategic planning of the company. He has more than 20 years of entrepreneurial experience in the telecommunications industry. Before Nexogy, he led the operations, sales, and marketing for the Solollama long distance service, the initial project for the holding company LD Telecom, with operations in the US and several Latin American countries. Felipe earned a BS in Industrial Engineering from the Universidad Católica Andrés Bello in Caracas, Venezuela.

BOARD OF DIRECTORS

Craig K. Clement
Executive Chairman

Arthur L. Smith
President and CEO

Maxwell A. Polinsky
Independent Director

Max was formerly President, Chief Financial Officer & Director at Winston Gold Corp. and a Principal at Venbanc Investment Management Group, Inc. and is on their board of directors. He was previously CFO & Director by Cougar Minerals Corp., a CFO at RX Exploration, Inc., an independent Director at Montana Gold Mining Co., Inc., and a General Manager at City Machinery Ltd. He also served on the board at Nerium Biotechnology, Inc., XPEL Technologies Corp. and Nighthawk Systems, Inc. He received his undergraduate degree from the University of Manitoba.

RISKS

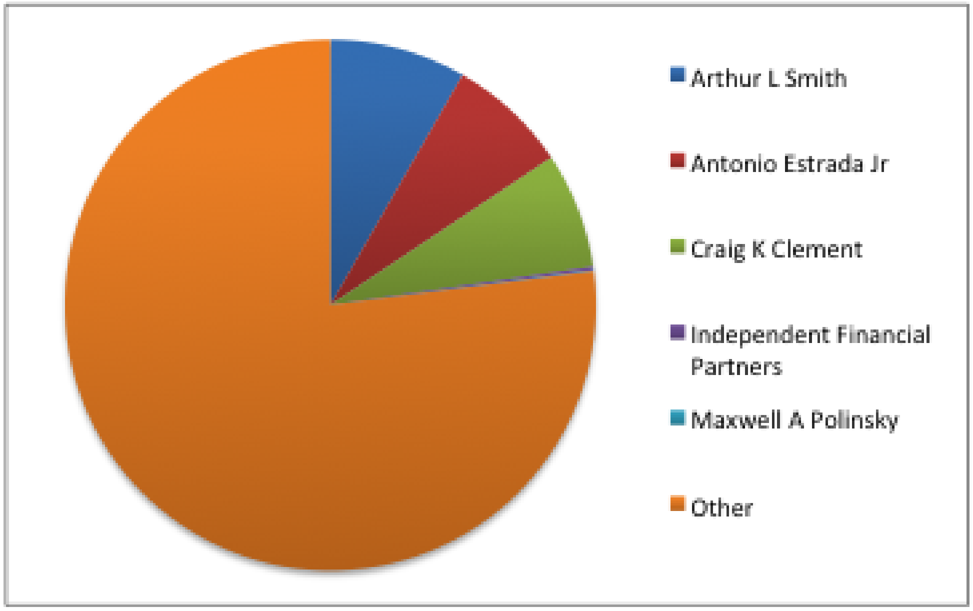
- The ompany has five classes of stock: the common and Series A, B, and C Preferred Stock and a Series F Super Voting Preferred Stock. Holders of the Series F Super Voting Preferred represents 62% of the vote thus leaving common shareholders without any say in the company. Art Smith CEO, Antonio Estrada Jr. CFO, and Craig K. Clement Chairman own 34, 33, and 33 shares respectively which add to the total amount of Series F preferred. Upon uplisting, the company plans to cancel this class of stock resolving this issue.

- Upon uplisting to an exchange, the Series B and C Preferred Stock is forced to convert to common however, it converts at a ratio so the holders of the preferred maintain the same percentage ownership of the company diluting only the other shareholders when capital is raised.

- The company has a going concern opinion, is cash flow negative, and will need to raise cash to support operations possibly resulting in dilution for common shareholders. The company’s executive management team is taking approximately 50% of its compensation in stock. It had positive adjusted EBITDA in FYQ2 2021.

- In order to list on NASDAQ or NYSE American, the company will have to address a number of deficiencies first, including stock price minimum, number of outside directors, and equity.

OWNERSHIP



INCOME STATEMENT

	Q1 20 Oct. 31, 2019	Q2 20 Jan. 31, 2020	Q3 20 April 30, 2020	Q4 July 31, 2020	Q1 20 Oct. 31, 2020	Q2 20 Jan. 31, 2021	Q3 20 April 30, 2021	Q4 July 31, 2021E	Q1 20 Oct. 31, 2021E	Q2 20 Jan. 31, 2022E	Q3 20 April 30, 2022E	Q4 July 31, 2022E	FY2020	FY2021E	FY2022E
OPERATING REVENUES:															
Cloud software and service revenue	$ 1,589	$ 1,557	$ 1,566	$ 1,567	$ 1,552	$ 3,326	$ 3,751	$ 3,798	$ 3,845	$ 3,892	$ 3,939	$ 3,988	$ 6,279	$ 12,427	$ 15,663
Total operating revenues	1,589	1,557	1,566	1,567	1,552	3,326	3,751	3,798	3,845	3,892	3,939	3,988	6,279	12,427	15,663
Yr-Yr Growth					-2.3%	113.6%	139.5%	142.4%	147.7%	17.0%	5.0%	5.0%		98%	26%
OPERATING EXPENSES:															
Cost of services	803	776	764	692	748	1,434	1,526	1,546	1,538	1,518	1,497	1,476	3,035	5,254	6,028
Gross margin	786	781	802	875	804	1,892	2,225	2,252	2,307	2,374	2,442	2,512	3,244	7,173	9,635
% Gross margin	49.5%	50.2%	51.2%	55.8%	51.8%	56.9%	59.3%	59.3%	60.0%	61.0%	62.0%	63.0%	51.7%	57.7%	61.5%
SG&A expense	1,192	1,118	1,047	749	1,011	1,965	1,993	2,000	2,000	2,000	2,000	2,000	4,106	6,969	8,000
Legal and professional fees	102	208	98	234	258	255	204	200	350	260	260	300	642	917	1,170
Bad debt	0	1	(19)	13	0	4	5	0	2	2	2	2	(5)	9	8
Depreciation and amortization expense	163	153	148	149	161	432	611	630	630	630	620	610	613	1,834	2,490
Total operating expenses	1,457	2,256	1,274	1,145	1,430	2,656	2,813	2,830	2,982	2,892	2,882	2,912	5,356	9,729	11,668
Operating loss	(671)	(699)	(472)	(270)	(626)	(764)	(588)	(578)	(675)	(518)	(440)	(400)	(2,112)	(2,556)	(2,033)
Operating margin	-42.2%	-44.9%	-30.1%	-17.2%	-40.3%	-23.0%	-15.7%	-15.2%	-17.6%	-13.3%	-11.2%	-10.0%	-33.6%	-20.6%	-13.0%
OTHER INCOME (EXPENSE):															
Gain (loss) on derivative instruments	(465)	783	(249)	194	178	(160)	(10,878)	0	0	0	0	0	263	(10,860)	0
Gain (loss) on settlement of debt	0	0	134	(5)	0	197	150	0	0	0	0	0	129	347	0
Income tax benefit (expense)	39	(7)	(10)	11	(8)	(51)	(63)	(70)	(70)	(72)	(80)	(90)	33	(192)	(312)
Other income	0	0	0	116	0	0	0	0	0	0	0	0	116	0	0
Interest expense	(424)	(578)	(511)	(340)	(300)	(1,202)	(1,577)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,853)	(4,679)	(6,400)
Total other income (expense)	(850)	198	(636)	(24)	(130)	(1,216)	(12,368)	(1,670)	(1,670)	(1,216)	(1,680)	(1,690)	(1,312)	(15,384)	(6,712)
Net income	(1,521)	(501)	(1,108)	(294)	(756)	(1,980)	(12,956)	(2,248)	(2,345)	(1,734)	(2,120)	(2,090)	(3,424)	(17,940)	(8,745)
Less: Noncontrolling interests	13	44	1	(11)	35	30	158	160	170	175	180	185	47	383	710
Net inc. to common shareholders	(1,508)	(457)	(1,107)	(305)	(721)	(1,950)	(12,798)	(2,088)	(2,175)	(1,950)	(1,940)	(1,905)	(3,377)	(17,557)	(8,035)
Dividend on Convertible preferred stock	(5)	0	0	(14)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(19)	(20)	(20)
Net inc. to common shareholders	$ (1,513)	$ (457)	$ (1,107)	$ (319)	$ (726)	$ (1,955)	$ (12,803)	$ (2,093)	$ (2,180)	$ (1,955)	$ (1,945)	$ (1,910)	$ (3,396)	$ (17,577)	$ (8,055)
EPS - basic	$ (0.06)	$ (0.01)	$ (0.02)	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.09)	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.06)	$ (0.14)	$ (0.06)
EPS - diluted	$ (0.06)	$ (0.01)	$ (0.02)	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.06)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.06)	$ (0.09)	$ (0.04)
Avg. shares out - basic	25,061,210	38,118,032	61,624,640	65,000,000	119,914,246	122,706,601	136,719,871	137,858,000	138,100,000	138,100,000	138,100,000	138,100,000	53,883,966	129,299,680	138,000,000
Yr-Yr Growth					378.5%	221.9%	121.9%	112.1%	15.2%	12.5%	1.0%	0.2%		140%	7%
Avg. shares out - diluted all in	25,061,210	38,118,032	61,624,640	65,000,000	158,442,301	202,442,301	216,455,571	217,873,700	217,873,700	217,873,700	217,873,700	217,873,700	53,883,966	198,803,468	198,803,468
Yr-Yr Growth					532.2%	431.1%	251.2%	235.2%	37.5%	7.6%	0.7%	0.0%		269%	0%
Adjusted EBITDA	43	(81)	(13)	(121)	58	247	321	234	139	361	364	394	(1,499)	860	457
Adj EBITDA margin	2.7%	-5.2%	-0.8%	-7.7%	3.7%	7.4%	8.6%	6.2%	3.6%	9.3%	9.2%	9.9%	-23.9%	6.9%	2.9%

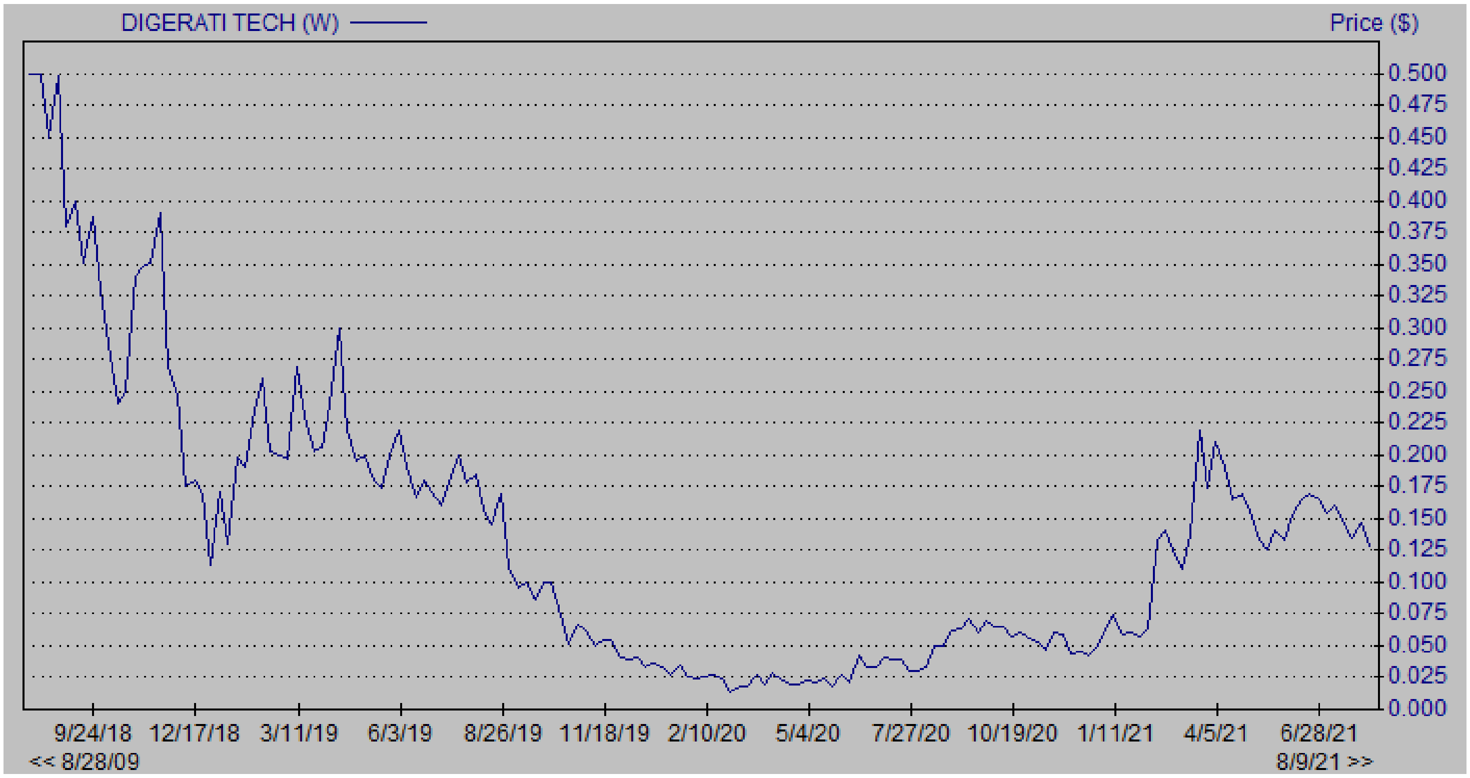
BALANCE SHEET

$ in Thousands	April 30, 2021	Jan. 31, 2021	Qtr-Qtr Growth	April 30, 2020	Yr-Yr Growth
CURRENT ASSETS:					
Cash and cash equivalents	$ 2,125	$ 1,875	13.3%	$ 445	377.5%
Accounts receivable, net	572	617	-7.3%	397	44.1%
Prepaid and other current assets	303	244	24.2%	176	72.2%
Total current assets	3,000	2,736	9.6%	1,018	194.7%
LONG-TERM ASSETS:					
Intangible assets, net	9,359	9,885	-5.3%	1,546	505.4%
Goodwill, net	3,513	3,513	0.0%	810	333.7%
Property and equipment, net	580	620	-6.5%	456	27.2%
Other assets	76	67	13.4%	73	4.1%
Investment in Itellum	185	185	0.0%	185	0.0%
Right-of-use asset	335	366	-8.5%	213	57.3%
Total assets	17,048	17,372	-1.9%	4,301	296.4%
CURRENT LIABILITIES:					
Accounts payable	1,868	1,598	16.9%	1,516	23.2%
Accrued liabilities	2,063	2,353	-12.3%	1,813	13.8%
Equipment financing	41	57	-28.1%	68	-39.7%
Convertible note payable	**866**	**840**	3.1%	**407**	112.8%
Note payable, related party	**859**	**1,006**	-14.6%	**131**	555.7%
Note payable	**2,639**	**2,289**	15.3%	**837**	215.3%
Deferred income	174	328	-47.0%	318	-45.3%
Derivative liability	17,340	6,462	168.3%	1,099	1477.8%
Operating lease liability	74	105	-29.5%	0	NA
Total current liabilities	25,924	15,038	72.4%	6,303	311.3%
LONG-TERM LIABILITIES:					
Notes payable, related party	**409**	**409**	0.0%	**95**	330.5%
Note payable	**5,828**	**5,370**	8.5%	**693**	741.0%
Equipment financing	8	8	0.0%	48	-83.3%
Operating lease liability	261	261	0.0%	99	163.6%
Total long-term liabilities	6,506	6,048	7.6%	935	595.8%
Total liabilities	32,430	21,086	53.8%	7,238	348.1%
Commitments and contingencies					
STOCKHOLDERS' DEFICIT:					
Common stock	138	134	3.0%	85	62.4%
Additional paid in capital	89,250	87,966	1.5%	85,762	4.1%
Accumulated deficit	(104,166)	(91,368)	14.0%	(88,392)	17.8%
Other comprehensive income	1	1	0.0%	1	0.0%
Total Digerati's stockholders' deficit	(14,777)	(3,267)	352.3%	(2,544)	480.9%
Noncontrolling interest	(605)	(447)	35.3%	(393)	53.9%
Total stockholders' deficit	(15,382)	(3,714)	314.2%	(2,937)	423.7%
Total liabilities and stockholders' deficit	17,048	17,372	-1.9%	4,301	296.4%
Current ratio	0.1	0.2	-36.4%	0.2	-28.3%
Working capital	(22,924)	(12,302)	86.3%	(5,285)	333.8%
Total debt	10,601	9,914	6.9%	2,163	390.1%
Debt/Total assets	62.2%	57.1%	9.0%	50.3%	23.6%

CASH FLOWS

$ in Thousands	Year July 30, 2019	Q1 Oct. 31, 2019	3 Mo Jan. 31, 2020	3 Mo Apr. 30, 2020	3 Mo July 30, 2020	Year July 30, 2020	Q1 Oct. 31, 2020	3 Mo Jan. 31, 2021	3 Mo Apr. 30, 2021
Cash flows from operating activities:									
Net loss	$ (4,648)	$ (1,521)	$ (501)	$ (1,108)	$ (294)	$ (3,424)	$ (756)	$ (1,980)	$ (12,956)
Adjustments to reconcile net loss to cash used in by operating activities:									
Depreciation and amortization	669	163	153	149	148	613	161	432	611
Stock compensation and warrant expense	1,044	511	323	298	(5)	1,127	343	33	182
Bad debt	6	0	1	(19)	13	(5)	0	4	5
Loss on AP settled with stock	5	0	0	0	0	0	0	0	0
Int exp. from stock iss for debt exten.	24	0	0	0	0	0	0	0	0
Amortization of ROU - operating	0	89	35	35	(19)	140	37	27	31
Amortization of debt discount	1,466	324	389	333	182	1,228	194	665	968
Loss (Gain) on derivative liabilities	74	465	(783)	249	(194)	(263)	(178)	160	10,878
(Gain) on settlement of debt	0	0	0	(134)	0	(134)	0	(197)	(150)
Changes in operating assets and liabilities:									
Accounts receivable	(40)	(15)	39	(140)	176	60	92	(228)	40
Prepaid expenses & other current assets	18	(21)	28	11	(41)	(23)	(6)	(64)	(71)
Inventory	0	0	0	0	0	0	0	22	4
Right of use operating lease liability	0	(49)	(75)	(35)	19	(140)	(38)	(26)	(31)
Accounts payable	171	42	21	214	(42)	235	334	(513)	276
Accrued expenses	661	80	221	231	114	646	44	910	443
Deferred income	23	(42)	111	(36)	(39)	(6)	(141)	190	(154)
Net cash used in operating activities	(527)	26	(38)	48	18	54	86	(565)	76
Cash flows from investing activities:									
Cash paid for equipment	(52)	(24)	(10)	(23)	(28)	(85)	(118)	(64)	(46)
Cash paid for escrow rel. to acquisition	(83)	0	0	(102)	(25)	(127)	0	0	0
Acquisitions of VoIP assets, net of cash	0	0	0	0	0	0	(365)	(9,743)	0
Net cash used in investing activities	(135)	(24)	(10)	(125)	(53)	(212)	(483)	(9,807)	(46)
Cash flows from financing activities:									
Proceeds from sale of stocks & warrants	473	0	0	0	99	99	0	0	30
Borrowings from convertible debt, net	1,044	150	0	45	240	435	0	558	520
Borrowings from debt, net	125	0	0	0	626	626	308	12,728	0
Borrowings from related party debt	0	0	0	70	(70)	0	0	0	0
Borrowings from 3rd party prom. Notes	0	0	0	322	(322)	0	0	0	0
Payments of ROU - liability	0	(40)	40	0	0	0	0	0	0
Principal payments on debt, net	0	0	0	0	0	0	0	(1,330)	0
Principal payments on conv. notes, net	(651)	0	(36)	36	(140)	(140)	(101)	0	(165)
Principal pymts on rel. party notes, net	(153)	(33)	(34)	(309)	(67)	(443)	(31)	(138)	(147)
Principal pymts on 3rd. party notes, net	(125)	0	0	0	0	0	0	0	0
Principal payment on equipment financing	(33)	(16)	(15)	(18)	(16)	(65)	(18)	(17)	(18)
Payment of debt financing cost	0	0	0	0	(75)	(75)	0	0	0
Net cash provided by financing activities	680	61	(45)	146	275	437	158	11,801	220
CHANGE IN CASH & EQUIVALENTS	18	63	(93)	69	240	279	(239)	1,429	250
CASH & EQUIVALENTS, beginning	388	406	469	376	445	406	685	446	1,875
CASH & EQUIVALENTS, end	406	469	376	445	685	685	446	1,875	2,125
SUPPLEMENTAL DISCLOSURES:									
Cash paid for interest	541	66	107	323	224	547	107	308	323
Income tax paid	0	0	0	0	0	0	0	0	0
Cash Flow	$ (1,360)	$ 31	$ (383)	$ (197)	$ (169)	$ (718)	$ (199)	$ (856)	$ (431)
Free cash flow	$ (1,495)	$ 7	$ (393)	$ (322)	$ (222)	$ (930)	$ (682)	$ (10,663)	$ (477)

HISTORICAL STOCK PRICE



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