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Zacks Small-Cap Research

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Digerati Technologies (OTCQB: DTGI)

Another Acquisition and Capital Raise is Most Likely by Year End as the Rollup Strategy Continues

Using peer group average multiples of EV/Estimated Sales, we believe DTGI stock could be worth at least $0.17 per share.

Current Price (11/05/21)	$0.11
Valuation	**$0.17**

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	**$0.04**
One-Year Return (%)	**119.5**
Beta	**1.6**
Average Daily Volume (sh)	**269,267**
Shares Outstanding (mil)	**138.8**
Market Capitalization ($mil)	**$16**
Short Interest Ratio (days)	**0**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**26**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**162.7**
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)
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 A	12.4 A
2022	3.8 E	3.9 E	4.0 E	4.1 E	15.7 E
2023					17.3 E

EPS

	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	Q4 (Jul)	Year (Jul)
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	-$0.01 A	-$0.13 A
2022	-$0.02 E	-$0.01 E	-$0.01 E	-$0.01 E	-$0.06 E
2023					-$0.06 E

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

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WHAT'S NEW

Digerati finished the year strongly as expected almost doubling revenues from last year. It announced it would reverse split the stock to reach compliance with NASDAQ's minimum stock price and change the name of the company to "Nexogy." This is expected to happen concurrently with a NASDAQ uplisting and a capital raise, which should happen by the end of calendar year 2021. In addition to reducing debt and increasing working capital we would not be surprised if the raise is also supporting an accretive acquisition to be announced at the same time given the company's roll up strategy, and having had an entire year to pick out its next target.

FY 2021 Results

2021 was a year of growth from the acquisitions of Nexogy and ActivePBX. For the fiscal year ending July 31, 2021, the company grew revenue 97.7% year over year. With the acquisitions and internal growth, the total number of customers increased from 728 on July 31, 2020, to 2,655 customers by July 31, 2021. It also increased from 22 employees to 46 in that time. Upon the acquisitions' anniversary, in FYQ2 2022, we expect growth to return to the typical 5-10% organic growth.

For FY 2021, revenue grew to $12.4 million versus $6.3 million. Gross margins were 58.6% versus 51.7% the year before.

SG&A rose 71% to $7.0 million. It would have risen more except for the $503,000 decline in stock-based compensation. In the 2020 FY there were catch up payments for previous years. Legal and professional fees increased $252,000. This year the company incurred $333,000 related to the acquisitions for audits, purchase price allocation calculations, and investor relations. Depreciation and amortization rose $1.1 million.

The operating loss for FY2021 increased to $2.4 million compared to $2.1 million in FY 2020.

In other income, the biggest impact came from loss on derivative instruments (non-cash expense,), which was a loss of $9.9 million in this year compared to a gain of $263,000 last year. Interest expense more than doubled to $4.8 million compared to $1.9 million last year due to higher borrowing to fund the acquisitions. Cash interest paid was $1.1 million compared to $547,000 last year.

Net income to common shareholders was a loss of $16.7 million versus $3.4 million. This resulted in a loss per share of $0.13 compared to a loss of $0.06 a year ago. The average share count rose 140% to 129.4 million versus 53.9 million.

Taking out loss on derivative instruments, gain on settlement of debt and stock-based compensation, the loss would have been $7.3 million versus $3.8 million or loss per share of $0.06 versus $0.07.

Balance Sheet

Digerati ended the July 31st year with $1.5 million in cash, a negative $24.2 million in working capital and $11.4 million in debt. Its current ratio is only 0.1. Its debt to total assets is 68.9% and its cash flow was a negative $1.3 million on an operating basis and its free cash flow a negative $12.1 million which includes acquisitions costing $10.1 million. Adjusted EBITDA was a $1,115,000 in 2021 versus a loss of $7,000 in FY2020. But if cash interest paid of $1,111,000 is added in, it was $4,000.

Once it has fulfilled the other NASDAQ or NYSE American listing requirements, we expect the company would do a capital raise to reach the other requirements and raise enough cash to sustain operations to get it through to cash flow breakeven. It just submitted paperwork to effect a reverse stock split at a ratio in a range of from 1 for 5 and up to 1 for 80 and change the company's name to "Nexogy."

In its most recent filing, the company stated it needs approximately $80,000 per month of additional working capital to fund corporate expenses during fiscal year 2022.

Recap of Post Road Transaction

In November 2020, Post Road Group provided a $20 million financing facility, allowing Digerati to buy Nexogy and ActivePBX and it 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.

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. It plans to continue to buy companies opportunistically and accretively and we expect a new target to be announced possible by year-end. We expect a capital raise to support working capital and acquistions.

- 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 271 million shares) enterprise value of $40.8 million or 2.7 times its calendar 2021 estimated sales of $15.2 million versus its peers who trade at 6.1 times. As its growth strategy, improved margins, and positive cash flow are further 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 and operate under the corporate name “Nexogy.”

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.

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 271 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%. We expect that event to happen by the end of calendar 2021. At that point, the total common stock outstanding should decrease to 302 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%	1.7	0%	1.7	1%	1.7	1%
Convertible Preferred	172.4	40%	180.0	40%	55.2	20%	87.1	29%
Options	9.2	2%	9.2	2%	9.2	3%	9.2	3%
Convertible Notes	22.3	5%	20.5	5%	20.5	8%	20.5	7%
CS outstanding 11/20	120.0	28%	138.0	31%	138.0	51%	138.0	46%
Total Diluted	**431.7**	**100%**	**449.7**	**100%**	**270.6**	**100%**	**301.6**	**100%**

The company's plan in a capital raise is to simplify the cap table and we expect when 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. Since our last update, the valuations of comparable companies has declined. Using calendar revenues of $15.2 million in 2021 and $16.3 million in 2022, this would value Digerati at an enterprise value of $88 million, a market value of $78 million and a stock price of at least $0.17 using a conservative 450 million fully diluted shares outstanding. This would be a stock price of $0.26 per share using the post offering share count of 302 million.

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	215	164	171	145	-65%	0.9	1.2	1.2	1.4	y	199
ClearOne	CLRO	NA	NA	31	32	-3%	NA	NA	1.2	1.1	y	36
Crexendo	CXDO	38	26	23	19	0%	3.0	4.3	4.9	6.1	y	114
8x8 Inc.	EGHT	NA	599	593	559	-23%	NA	4.7	4.8	5.1	y	2,840
Five9	FIVN	719	585	575	522	3%	14.6	17.9	18.3	20.1	y	10,500
RingCentral Inc.	RNG	1,920	1,550	1,516	1,370	-6%	11.8	14.6	15.0	16.6	y	22,700
Concensus Cloud Solutions	CCSI	373	349	NA	688	45%	3.0	3.2	NA	1.1	y	1,130
Lantronix	LTRX	126	115	83	71	3%	2.2	2.5	3.4	4.0	y	283
Ooma	OOMA	207	189	188	180	1%	2.4	2.6	2.7	2.8	y	502
Vonage	VG	1,530	1,390	1,406	1,250	10%	3.2	3.5	3.5	3.9	y	4,860
Zoom	ZM	4,720	4,020	4,086	3,640	30%	15.7	18.5	18.2	20.4	n	74,300
Average						-3.6%	5.2	6.1	6.7	6.2		5,422

Projected Revenue 2022E	Projected Revenue 2021E	TTM	EV/Sales 2022E	EV/Sales 2021E	EV/Sales TTM	Valuation Range Low	Valuation Range High
16.3	15.2	12.4	5.2	6.1	6.2	84	93

Conclusion of Enterprise Value	$88,335
Market Value	78,437
Fully diluted shares	450,000
Price per Share	**$0.17**

RISKS

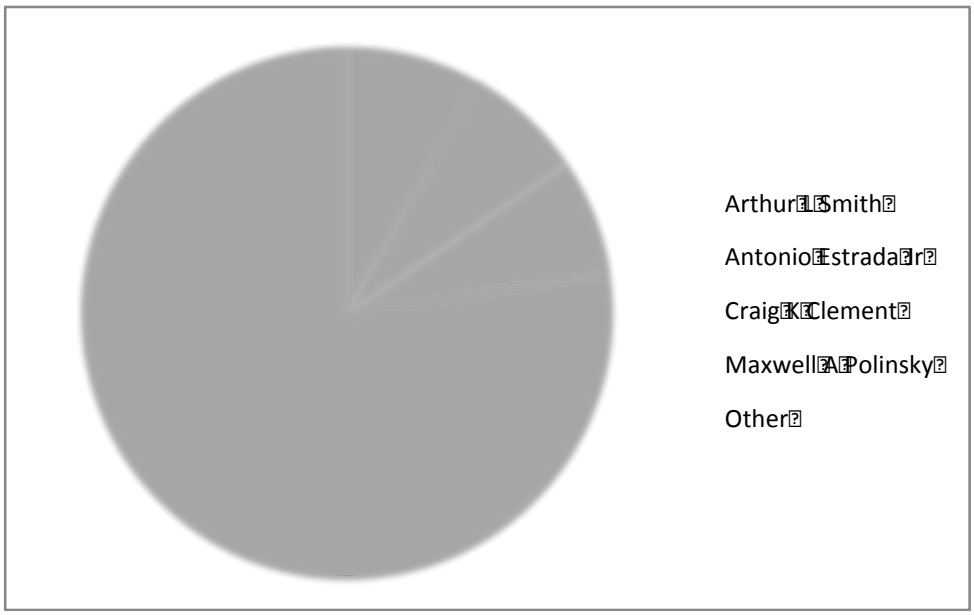
- The company has five classes of stock: the common and Series A, B, and C Preferred Stock and a Series F Super Voting Preferred Stock. Holders of the Series F Super Voting Preferred represents 62% of the vote thus leaving common shareholders without any say in the company. Art Smith CEO, Antonio Estrada 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 FY 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. It is taking action on a reverse split to reach the stock price minimum.

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, 2021	Q1 20 Oct. 31, 2021E	Q2 20 Jan. 31, 2022E	Q3 20 April 30, 2022E	Q4 July 31, 2022E	FY2020	FY2021	FY2022E
OPERATING REVENUES:															
Cloud software and service revenue	$ 1,589	$ 1,557	$ 1,566	$ 1,567	$ 1,552	$ 3,326	$ 3,751	$ 3,787	$ 3,823	$ 3,870	$ 3,957	$ 4,052	$ 6,279	$ 12,416	$ 15,702
Total operating revenues	1,589	1,557	1,566	1,567	1,552	3,326	3,751	3,787	3,823	3,870	3,957	4,052	6,279	12,416	15,702
Yr-Yr Growth					-2.3%	113.6%	139.5%	141.7%	146.3%	16.4%	5.5%	7.0%		97.7%	26%
OPERATING EXPENSES:															
Cost of services	803	776	764	692	748	1,434	1,526	1,427	1,441	1,459	1,492	1,524	3,035	5,135	5,916
Gross margin	786	781	802	875	804	1,892	2,225	2,360	2,382	2,411	2,465	2,529	3,244	7,281	9,787
% Gross margin	49.5%	50.2%	51.2%	55.8%	51.8%	56.9%	59.3%	62.3%	62.3%	62.3%	62.3%	62.4%	51.7%	58.6%	62.3%
SG&A expense	1,192	1,118	1,047	749	1,011	1,965	1,993	2,050	2,080	2,000	2,000	2,000	4,106	7,019	8,080
Legal and professional fees	102	208	98	234	258	255	204	177	300	350	260	250	642	894	1,160
Bad debt	0	1	(19)	13	0	4	5	8	2	2	2	2	(5)	17	8
Depreciation and amortization expense	163	153	148	149	161	432	611	545	540	540	540	540	613	1,749	2,160
Total operating expenses	1,457	2,256	1,274	1,145	1,430	2,656	2,813	2,780	2,922	2,892	2,802	2,792	5,356	9,679	11,408
Operating loss	(671)	(699)	(472)	(270)	(626)	(764)	(588)	(420)	(540)	(481)	(337)	(263)	(2,112)	(2,398)	(1,621)
Operating margin	-42.2%	-44.9%	-30.1%	-17.2%	-40.3%	-23.0%	-15.7%	-11.1%	-14.1%	-12.4%	-8.5%	-6.5%	-33.6%	-19.3%	-10.3%
OTHER INCOME (EXPENSE):															
Gain (loss) on derivative instruments	(465)	783	(249)	194	178	(160)	(10,878)	925	0	0	0	0	263	(9,935)	0
Gain (loss) on settlement of debt	0	0	134	(5)	0	197	150	213	0	0	0	0	129	560	0
Income tax benefit (expense)	39	(7)	(10)	11	(8)	(51)	(63)	(61)	(70)	(72)	(80)	(90)	33	(183)	(312)
Other income	0	0	0	116	0	0	0	(294)	0	0	0	0	116	(294)	0
Interest expense	(424)	(578)	(511)	(340)	(300)	(1,202)	(1,577)	(1,686)	(1,700)	(1,790)	(1,820)	(1,850)	(1,853)	(4,765)	(7,160)
Total other income (expense)	(850)	198	(636)	(24)	(130)	(1,216)	(12,368)	(903)	(1,770)	(1,216)	(1,900)	(1,940)	(1,312)	(14,617)	(7,472)
Net income	(1,521)	(501)	(1,108)	(294)	(756)	(1,980)	(12,956)	(1,323)	(2,310)	(1,697)	(2,237)	(2,203)	(3,424)	(17,015)	(9,093)
Less: Noncontrolling interests	13	44	1	(11)	35	30	158	109	160	175	180	185	47	332	700
Net inc. to common shareholders	(1,508)	(457)	(1,107)	(305)	(721)	(1,950)	(12,798)	(1,214)	(2,150)	(1,950)	(2,057)	(2,018)	(3,377)	(16,683)	(8,393)
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)	$ (1,219)	$ (2,155)	$ (1,955)	$ (2,062)	$ (2,023)	$ (3,396)	$ (16,703)	$ (8,413)
EPS - basic	$ (0.06)	$ (0.01)	$ (0.02)	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.09)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.06)	$ (0.13)	$ (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)	$ (0.08)	$ (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	137,950,308	138,838,039	139,000,000	139,000,000	139,000,000	53,883,966	129,411,947	138,000,000
Yr-Yr Growth					378.5%	221.9%	121.9%	112.2%	15.8%	13.3%	1.7%	0.8%		140%	7%
Avg. shares out - diluted all in	25,061,210	38,118,032	61,624,640	65,000,000	156,428,811	200,428,811	214,442,081	216,560,249	216,560,249	216,560,249	216,560,249	216,560,249	53,883,966	196,964,988	196,964,988
Yr-Yr Growth					524.2%	425.8%	248.0%	233.2%	38.4%	8.0%	1.0%	0.0%		266%	0%
Non-GAAP adjusted EBITDA	43	(81)	(13)	62	58	247	321	525	252	461	387	461	(7)	1,151	539
Adj EBITDA margin	2.7%	-5.2%	-0.8%	4.0%	3.7%	7.4%	8.6%	13.9%	6.6%	11.9%	9.8%	11.4%	-0.1%	9.3%	3.4%
EBITDA-cash interest and cash taxes	(23)	(188)	(336)	(162)	(49)	(61)	(2)	167	(56)	153	79	153	(554)	55	484

BALANCE SHEET

$ in Thousands	July 31, 2021	April 30, 2021	Qtr-Qtr Growth	July 31, 2020	Yr-Yr Growth
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,489	$ 2,125	-29.9%	$ 685	117.4%
Accounts receivable, net	617	572	7.9%	208	196.6%
Prepaid and other current assets	232	303	-23.4%	361	-35.7%
Total current assets	2,338	3,000	-22.1%	1,254	86.4%
LONG-TERM ASSETS:					
Intangible assets, net	8,527	9,359	-8.9%	1,451	487.7%
Goodwill, net	3,931	3,513	11.9%	810	385.3%
Property and equipment, net	529	580	-8.8%	431	22.7%
Other assets	76	76	0.0%	43	76.7%
Investment in Itellum	185	185	0.0%	185	0.0%
Right-of-use asset	934	335	178.8%	176	430.7%
Total assets	16,520	17,048	-3.1%	4,350	279.8%
CURRENT LIABILITIES:					
Accounts payable	1,653	1,868	-11.5%	1,487	11.2%
Accrued liabilities	2,570	2,063	24.6%	1,840	39.7%
Equipment financing	37	41	-9.8%	62	-40.3%
Convertible note payable	**1,049**	**866**	21.1%	**548**	91.4%
Note payable, related party	**998**	**859**	16.2%	**78**	1179.5%
Note payable	**2,963**	**2,639**	12.3%	**1,571**	88.6%
Deferred income	20	174	-88.5%	279	-92.8%
Derivative liability	16,773	17,340	-3.3%	606	2667.8%
Operating lease liability	503	74	579.7%	99	408.1%
Total current liabilities	26,566	25,924	2.5%	6,570	304.4%
LONG-TERM LIABILITIES:					
Notes payable, related party	**136**	**409**	-66.7%	**85**	60.0%
Note payable	**6,241**	**5,828**	7.1%	**193**	3133.7%
Equipment financing	0	8	-100.0%	**38**	-100.0%
Operating lease liability	431	261	65.1%	77	459.7%
Total long-term liabilities	6,808	6,506	4.6%	393	1632.3%
Total liabilities	33,374	32,430	2.9%	6,963	379.3%
Commitments and contingencies	0				
STOCKHOLDERS' DEFICIT:					
Common stock	139	138	0.7%	101	37.6%
Additional paid in capital	89,100	89,250	-0.2%	86,364	3.2%
Accumulated deficit	(105,380)	(104,166)	1.2%	(88,697)	18.8%
Other comprehensive income	1	1	0.0%	1	0.0%
Total Digerati's stockholders' deficit	(16,140)	(14,777)	9.2%	(2,231)	623.4%
Noncontrolling interest	(714)	(605)	18.0%	(382)	86.9%
Total stockholders' deficit	(16,854)	(15,382)	9.6%	(2,613)	545.0%
Total liabilities and stockholders' deficit	16,520	17,048	-3.1%	4,350	279.8%
Current ratio	0.1	0.1	-24.0%	0.2	-53.9%
Working capital	(24,228)	(22,924)	5.7%	(5,316)	355.8%
Total debt	11,387	10,601	7.4%	2,513	353.1%
Debt/Total assets	68.9%	62.2%	10.8%	57.8%	19.3%

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	3 Mo July 30, 2021	Year July 30, 2021
Cash flows from operating activities:											
Net loss	$ (4,648)	$ (1,521)	$ (501)	$ (1,108)	$ (294)	$ (3,424)	$ (756)	$ (1,980)	$ (12,956)	$ (1,323)	$ (17,015)
Adjustments to reconcile net loss to cash used in by operating activities:											
Depreciation and amortization	669	163	153	149	148	613	161	432	611	503	1,707
Stock comp and warrant expense	1,044	511	323	298	(5)	1,127	343	33	182	66	624
Bad debt	6	0	1	(19)	13	(5)	0	4	5	8	17
Loss on AP settled with stock	5	0	0	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	0	0
Amortization of ROU - operating	0	89	35	35	(19)	140	37	27	31	233	328
Amortization of debt discount	1,466	324	389	333	182	1,228	194	665	968	982	2,809
Loss (Gain) on derivative liabilities	74	465	(783)	249	(194)	(263)	(178)	160	10,878	(925)	9,935
(Gain) on settlement of debt	0	0	0	(134)	0	(134)	0	(197)	(150)	(213)	(560)
Accrued interest added to principal										510	510
Pref stock C issued for settlement of AP										333	333
Stock issued for debt extension										59	59
Changes in operating assets and liabilities:											
Accounts receivable	(40)	(15)	39	(140)	176	60	92	(228)	40	27	(69)
Prepaid exp & other current assets	18	(21)	28	11	(41)	(23)	(6)	(64)	(71)	187	46
Inventory	0	0	0	0	0	0	0	22	4	(53)	-27
Right of use operating lease liability	0	(49)	(75)	(35)	19	(140)	(38)	(26)	(31)	(233)	(328)
Accounts payable	171	42	21	214	(42)	235	334	(513)	276	2	99
Accrued expenses	661	80	221	231	114	646	44	910	443	(314)	1,083
Deferred income	23	(42)	111	(36)	(39)	(6)	(141)	190	(154)	(154)	(259)
Net cash used in operating activities	(527)	26	(38)	48	18	54	86	(565)	76	(305)	(708)
Cash flows from investing activities:											
Cash paid for equipment	(52)	(24)	(10)	(23)	(28)	(85)	(118)	(64)	(46)	(182)	(410)
Cash paid for escrow rel. to acquisition	(83)	0	0	(102)	(25)	(127)	0	0	0	0	0
Acquisitions of VoIP assets, net of cash	0	0	0	0	0	0	(365)	(9,743)	0	(282)	-10390
Net cash used in investing activities	(135)	(24)	(10)	(125)	(53)	(212)	(483)	(9,807)	(46)	(464)	(10,800)
Cash flows from financing activities:											
Proceed from sale of stocks & warrants	473	0	0	0	99	99	0	0	30	4	34
Borrowings from convertible debt, net	1,044	150	0	45	240	435	0	558	520	0	1,078
Borrowings from debt, net	125	0	0	0	626	626	308	12,728	0	0	13036
Borrowings from related party debt	0	0	0	70	(70)	0	0	0	0	0	0
Borrowings from 3rd party prom. notes	0	0	0	322	(322)	0	0	0	0	0	0
Payments of ROU - liability	0	(40)	40	0	0	0	0	0	0	0	0
Principal payments on debt, net	0	0	0	0	0	0	0	(1,330)	0	(8)	-1338
Principal payments on conv. notes, net	(651)	0	(36)	36	(140)	(140)	(101)	0	(165)	0	(266)
Principal pymts on rel. party notes, net	(153)	(33)	(34)	(309)	(67)	(443)	(31)	(138)	(147)	147	(169)
Principal pymts on 3rd. party notes, net	(125)	0	0	0	0	0	0	0	0	0	0
Principal payment on eqt. financing	(33)	(16)	(15)	(18)	(16)	(65)	(18)	(17)	(18)	(10)	(63)
Payment of debt financing cost	0	0	0	0	(75)	(75)	0	0	0	0	0
Net cash provided by financing activities	680	61	(45)	146	275	437	158	11,801	220	133	12,312
CHANGE IN CASH & EQUIVALENTS	18	63	(93)	69	240	279	(239)	1,429	250	(636)	804
CASH & EQUIVALENTS, beginning	388	406	469	376	445	406	685	446	1,875	2,125	685
CASH & EQUIVALENTS, end	406	469	376	445	685	685	446	1,875	2,125	1,489	1,489
SUPPLEMENTAL DISCLOSURES:											
Cash paid for interest	541	66	107	323	224	547	107	308	323	358	1,111
Income tax paid	0	0	0	0	0	0	0	0	0	0	0
Cash Flow	$ (1,360)	$ 31	$ (383)	$ (197)	$ (169)	$ (718)	$ (199)	$ (856)	$ (431)	$ 233	$ (1,253)
Free cash flow	$ (1,495)	$ 7	$ (393)	$ (322)	$ (222)	$ (930)	$ (682)	$ (10,663)	$ (477)	$ (231)	$ (12,053)

HISTORICAL STOCK PRICE



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