Zacks Small-Cap Research

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CUR Media Inc. (CURM-OTCBB)

CURM: Zacks Company Report – DEMO Shows Differentiated Product With Novel Features

Current Recommendation	**Buy**
Prior Recommendation	Buy
Date of Last Change	08/15/14
Current Price (11/21/14)	$0.80
12- Month Target Price	**$3.00**

OUTLOOK

As a development stage digital music business with a unique product offering and royalty structure, we see CÜR Media as a potential winner in the music industry shift from physical media and digital downloads to streaming content. With its industry insiders and low valuation versus venture-backed start-ups, we believe investors with a high-risk tolerance and longer investment horizons could be rewarded.

SUMMARY DATA

52-Week High	**$3.00**
52-Week Low	**$0.75**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**11,192**
Shares Outstanding (mil)	**25**
Market Capitalization ($mil)	**$19**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**NM**
P/E using 2015 Estimate	**NM**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Development Stage**
Industry	**Internet Commerce**
Zacks Rank	**7 of 24**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2013	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2014	$0.0 A	$0.0 A	$0.0 A	$0.0 E	$0.0 E
2015					$18.8 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	N/A	N/A	N/A	N/A	N/A
2013	-$0.03 A	N/A	N/A	N/A	N/A
2014	-$0.04 A	-$0.02 A	-$0.07 A	-$0.07 E	-$0.36 E
2015					-$0.65 E

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

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WHAT'S NEW

We've Seen the Demo and See the Potential for Success

The company has been showing a demo of the product to record labels and we have finally seen it and are even more convinced that this service will be a formidable competitor to both Pandora and Spotify as it lands squarely between the two in price and has even better functionality. Since the company is negotiating directly with labels, as opposed to Pandora's DMCA compliant service, it has much more flexibility in features and thus pricing. There are a number of salient characteristics of the Cür Music service that we believe will drive adoption.

First is the service will have similar radio-like capabilities as Pandora but it will have no interruptive ads and no listening caps at a lower price than Pandora's $4.99 paid service. The radio feature will include more interactivity than Pandora, and the interface will be button free and operate via taps and swipes.

Secondly, it will include some on-demand functionality. Users at the $1.99 price will get a certain number of songs to play on-demand. If more songs are needed, there will be higher priced tiers of service to get them.

Third is the unique sharing features. Users will create a profile that includes their favorite music. They can have people follow them and follow other people. Users will be able to send songs and playlists to friends on the service or on Facebook, Twitter and text. They can add a photo or even a short video to the shared music. We are particularly excited about the ability to send a friend on Facebook a version of "Happy Birthday "or "White Christmas," or even a love song.

Fourth, and maybe even the most useful, is having the certain of the service's features voice-activated. You can speak to the service and say "Play Shake it Off". This is a very interesting differentiator for CÜR's product.

We believe that the labels should be pleased to have an alternative to Pandora that will offer them greater ARPU than Pandora. A low priced paid service would fill a void and solves the Taylor Swift problem, meaning the artist would be paid much more than a free service and embrace it. While many believe that the big players will squeeze out new entrants, we believe that new features and pricing will be embraced by music fans who seek an alternative and are not easily adopted by the large players who have far different royalty agreements and economics.

Q3 Earnings Update

The company released Q3 financials on November 14, 2014, and reported spending $300,000 slightly less than we expected. As a result, non-GAAP EPS loss was $0.07 versus the loss of $0.08 we expected. The company is showing it has a good handle on its finances and is on plan for its spending except for the dollars that had been allocated for the launch that has been delayed.

Originally the company planned to raise capital and then launch in Q4, but that plan has been pushed back as it has taken longer than expected to get deals signed with the record labels. Other than that, plans are on track, the product is developing as expected, and the company plans to soon begin raising capital in preparation for its launch. The company now has a full demo that is has been showing to the labels and the service will begin to be tested in-house this quarter.

During Q3, the company burned through $1.4 million in cash, and now has $4.5 million on the balance sheet down from $5.9 million at the end of the June quarter. The company is doing well preserving cash until it achieves its goal of raising another $25-30 million, an amount that is expected to be sufficient to reach cash flow breakeven some time in 2016.

This quarter the company made arrangements to use Zuora's Relationship Business Management platform to process payments and billing and is now integrating it into its music service. Additionally, a contract was signed with Rovi to provide a search and recommendation engine, as well as voice recognition software.

Management continued to make progress both on the product, and in negotiations with the three major record labels Universal, Sony and Warner. The first step is for the company and the labels to come to an agreement with a letter of intent (LOI) that will spell out pricing and the features. The company hopes to have that in place during Q4. They have been working together on term sheets and should be able to reach agreements in the next 60 days.

In addition to agreeing to LOIs, investors will have a catalyst when the company moves to testing early next year. The company plans alpha testing with a number of users in the 12-34 year old target market and then will move to a private beta. It also plans focus groups to gather feedback in order to make improvements prior to launch. Members of the press will be given access in order to promote the product in advance of launch. This publicity and evaluation by experts will give some transparency for investors. We expect the product to launch by the end of Q2 and for revenues to begin one month later as the free trials expire.

Q4 Forecast

We previously expected the company to launch its service in Q4 although only as a free trial and that has been pushed back as negotiations with labels have taken longer than expected. As a result the marketing dollars will not be spent as expected so we are lowering the loss from $5.2 million or a non-GAAP $0.14 per share, to a loss of $1.9 million or $0.07 per share much like Q3.

2015

We now expect revenues to begin only in Q3, but given the feedback from the record labels and the push back from artists on free services we are more convinced our assumptions have been to too conservative and as such keeping 2015 revenues and earnings at $18.8 million and a loss of $24 million respectively until we see evidence to the contrary. The company has always believed it can ramp subscribers even faster than we expected and we are coming closer to its expectations having now seen the planned product. Needless to say, the delay pushes of evidence of traction further in the future, but does not at all reduce the future potential. As we see more and more of its features we believe that there is the potential for what is billed as a simple music service to morph into a full fledged social music streaming platform for the next generation. The target market of 12-34 year olds are much more likely to seek out an alternative to Pandora, FM Radio and Spotify. CÜR's social features combining music, photos and video should provide consumers a sharing alternative with features not available elsewhere. As such, CÜR Music may have significantly more upside than even Spotify or Pandora.

Industry Update

The decline in digital download revenues continues this year at a -13% rate from last year while streaming continues to grow. Streaming and subscriptions revenues are now only 18% of industry revenues, but are expected to grow to 60% four years from now. The largest paid service, Spotify, has 50 million worldwide users of which only 12.5 million use the paid service. On November 12, YouTube unveiled its beta version of YouTube Music Key, a paid offering that offers higher-quality audio for most songs and other features including no ads for $8 a month.

The labels are beginning to weary of free music services and are seeking more profitable alternatives such as products like CURM's. Spotify continues to falter in coming up with a sustainable business model as do the other paid services. The most visible sign of strife in the industry was Taylor Swift's move to pull her music off the Spotify service, as have other artists. While piracy is often blamed for the industry woes, pricing to consumers is a prime culprit as customer acquisition costs for high priced services eat into profits at the

expense of musicians and labels. CURM believes a low-priced service offering features unavailable through simple piracy will provide consumers with something worth paying for.

INVESTMENT THESIS

- CÜR Media common stock presents a unique opportunity for public investors to invest in a pure play streaming music start up before launch when typically only venture capitalists have had this opportunity.

- The streaming music market is a high growth market still in its infancy and that has huge potential it as it usurps large portions of the music market for digital downloads and physical CDs. It is currently growing over 50% per a year in the US according to Nielsen, while digital downloads decline over 10% per year.

- Its seasoned management team and board of directors from the music industry had the knowledge and connections to success in the streaming business. The company's predecessor already had a successful streaming service and we believe this incarnation will be even better.

- We believe a near term catalysts will be a private beta testing of the service that will start some time in Q4, after deals with the three major labels are finalized.

- CÜR Media is a music startup has a unique service offering, that should be able to penetrate the market and scale due to the planned product feature set as well as the social toolset, currently unavailable from any other competitor. Its hybrid Internet radio and on-demand product, coupled with sharing capabilities and a low-priced paid subscription should stand out among a sea of competition and could morph into a full service social network much like Facebook.

- At only a $27 million fully diluted enterprise value, the company is at a low valuation versus other venture-funded startups. As a public company, it should have an even higher comparable valuation than private startups due to liquidity.

- We still believe if CURM can execute its plan, it could reach $3.00 versus other high growth services companies in the public market taking into account the increase in shares outstanding from the potential offering in the next twelve months. This is derived using a valuation of 9.9 x 2015 estimated revenues. This would give it an enterprise value of $200 million. A successful launch with traction could jettison valuation closer to the $500 million that was paid for Beats.

VALUATION

Valuing CÜR Media against public companies is difficult as there are only two pure plays in digital music that we know of, that being Pandora and Sirius XM. One is a high growth, low margin business and the other a slow growth high margin business, but surprisingly they are valued almost identically in a enterprise value to market cap basis, this being 6xs estimated 2014 revenues. We also look at high growth services businesses such as Facebook and Zillow in the table below and look at the averages. If we take the enterprise value to sales multiple of the streaming companies of 4.4x and average it with the same multiple for the growth companies, 15.4x, we get an average of 9.9x 2014 projected revenues. Using this average multiple to revenues and Cür' projected $19 million 2015 revenues, we can see a future price for CÜR upwards of $3.00 or higher by 2015 based on public comparables or an enterprise value of over $200 million.

Streaming Music

Company	Revenue FY2014E	Revenue LTM	2-year Historical Revenue CAGR	EBITDA Margin	Enterprise Value / Sales FY2014E	Enterprise Value / Sales LTM	Included in Average?
Pandora	$916	$870	54%	-1%	4.5x	4.8x	y
Sirius XM	$4,170	$4,090	12%	33%	5.8x	5.9x	y
Netflix	$5,500	$5,200	17%	9%	4.1x	4.3x	y
iHeartMedia, Inc.	$6,360	$6,296	7%	28%	3.2x	3.3x	y
Realnetworks	$155	$171	-22%	-32%	0.5x	0.4x	n
Average			**22%**	**17%**	**4.4x**	**4.6x**	

Growth Companies

Company	Revenue FY2014E	Revenue LTM	2-year Historical Revenue CAGR	EBITDA Margin	Enterprise Value / Sales FY2014E	Enterprise Value / Sales LTM	Included in Average?
Amazon	$89,490	$85,250	24%	5%	1.7x	1.7x	n
Facebook	$12,390	$11,200	46%	54%	15.7x	17.4x	y
Twitter	$1,380	$1,170	154%	-67%	17.4x	20.5x	y
Zillow	$324	$292	73%	-3%	13.1x	14.5x	y
Average			**91%**	**-5%**	**15.4x**	**17.5x**	

	Revenue[1] FY2015E	Revenue[1] LTM	2-year Historical Revenue CAGR	EBITDA Margin	Enterprise Value / Sales FY2015E	Enterprise Value / Sales LTM	Valuation Range Low	Valuation Range High
Cür Media	**$19**	**$19**	**NA**	**NA**	**9.9x**	**11.0x**	**$186**	**$207**

Conclusion of Enterprise Value	**$207,279,476.80**
Estimated Fully Diluted Shares Outstanding	69,548,363
Estimated Price per Share	**$3.01**

Merger & Acquisition Valuation

More useful comparables to look at are in the private markets, the largest and most visible being **Spotify**. It is rumored to be planning an IPO in the next six months at a valuation over $4 billion which was its last round price. We believe that price was approximately 5.7 times that year's sales. Google disclosed that it tried to buy Spotify, but it was asking $10B, and Google was interested in the $4-5 B range according to a filing that described a foreign company purchase attempt.

Instead Google purchased **Songza**, a free Pandora competitor with 50 employees. The purchase price was rumored to be $39 million. The free DMCA compliant service would be the most difficult business to succeed in in our opinion, as Pandora has huge barriers to entry. For a company to compete in that arena, there would need to be a large sum to be invested to grow a business large enough to survive on advertising alone. Google has the deep pockets to do that. Additionally, since Amazon was an investor, it is possible that it got the rights for the playlists for its new streaming service, reducing the price.

In May, Apple bought **Beats**, a company that also owns a Spotify-like music services. Rumors point to a valuation of $500 million for that portion of the acquisition. This is quite a sum for the seven-month-old startup with few subscribers.

SoundCloud is another company in the music space albeit with a different business model. SoundCloud raised $60 million at a $700 million valuation and was rumored to be acquired by Twitter for $2 billion. While not a direct competitor in the space, it is attempting to be the YouTube of music, allowing artists to upload and share music and has a $12 per month unlimited upload subscription service.

RISKS

- CURM is a start-up company and is planning to launch a service with an unproven business model.
- There is no assurance consumers will like the service and pay for it.
- The company so far has no agreements with record companies to pay royalties at a favorable rate.
- Competition is fierce and many large companies with considerable resources will be competing with CURM.
- The company may not be able to attract additional capital that will be vital to its success.
- The company's product has not yet launched and any delay would change the financial forecasts and funding needs.
- The company is highly dependent on the leadership of Tom Brophy and could suffer without him.

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INCOME STATEMENT

CUR Media
November 24, 2014

	March Q1 14A	June Q2 14A	Sept Q3 14A	Dec Q4 14E	2014E	2015E
REVENUE						
Net Revenue	0	0	0	0	0	17,812,500
Yr-to-yr Gr.	NA	NA	NA	NA		
End Subscribers (millions)	-	-	-	0	0	1,200,000
OPERATING EXPENSES						
Cost of goods sold	0	0	0	0	0	14,250,000
Gross Margin	0	0	0	0	0	3,562,500
% of Sales	100.0%	100.0%	100.0%	100.0%	100.0%	20.0%
R&D	662,331	955,112	1,115,554	1,250,000	3,982,997	6,550,000
SG&A	124,484	308,852	530,972	1,209,220	2,173,528	20,950,000
Stock based compensation	1,436,781	76,512	107,443	250,000	1,870,736	1,150,000
Dep. & Amortization	1,229	6,263	9,220	9,220	25,932	100,000
Tot Operating Exp.	2,224,825	1,346,739	1,763,189	2,200,000	8,053,193	27,700,000
Operating Income	(2,224,825)	(1,346,739)	(1,763,189)	(2,200,000)	(8,053,193)	(24,137,500)
Yr-to-yr Gr.						
Interest expense	-4,338	-496	-448	0	-5,282	0
Interest income	1,114	1,440	3,000	1,200	6,754	91,000
Change in Fair Value of Derivative	0	439,963	9,196	0	449,159	0
Other income	41,937	0	18,274	0	60,211	0
Total Other	38,713	440,907	30,022	1,200	510,842	91,000
Pretax Income	(2,186,112)	(905,832)	(1,733,167)	(2,198,800)	(7,542,351)	(24,046,500)
Taxes	-	-	-	-	-	-
Tax Rate	-	-	-	-	-	-
GAAP Net Income	(2,186,112)	(905,832)	(1,733,167)	(2,198,800)	(7,542,351)	(24,046,500)
GAAP EPS	**($0.13)**	**($0.04)**	**($0.07)**	**($0.09)**	**($0.33)**	**($0.69)**
Non-GAAP EPS	**($0.04)**	**($0.03)**	**($0.07)**	**($0.08)**	**($0.25)**	**($0.65)**
Share Out	17,442,013	24,803,146	24,807,881	24,807,881	22,965,230	35,000,000
Fully diluted shares	39,500,000	39,209,184	39,548,363	39,548,363	39,451,478	50,000,000

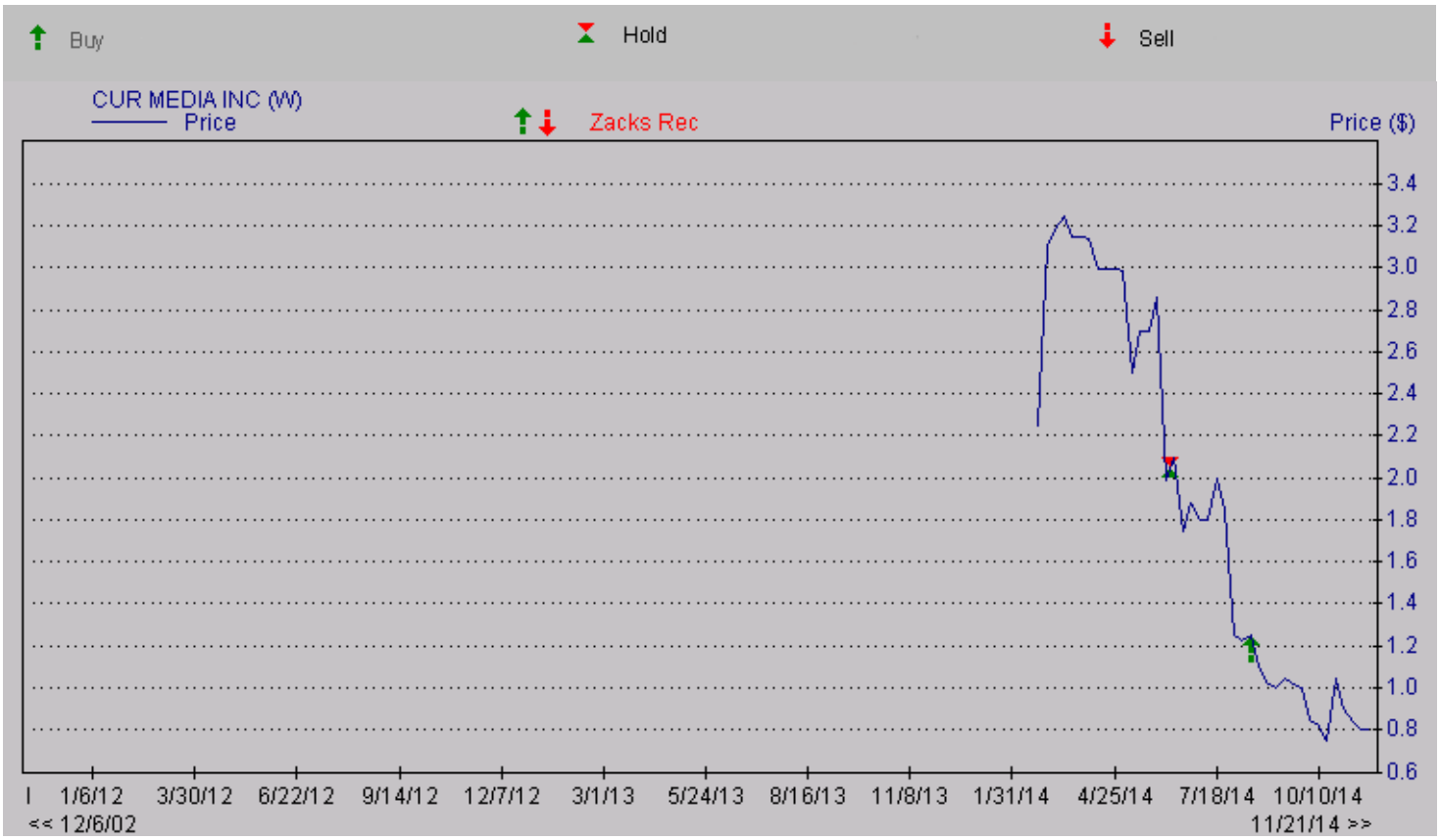
BALANCE SHEET

	Sept. 30, 2014	June 30, 2014	
CURRENT ASSETS			% Change
Cash and Cash Equivalents	**$4,540,692**	**$5,938,999**	-23.5%
Prepaid expenses	2,301	10,996	-79.1%
Other Current Assets	3,382	3,000	12.7%
TOTAL CURRENT ASSETS	4,546,375	5,952,995	-23.6%
Property and Equipment, net	51,676	46,797	10.4%
TOTAL ASSETS	4,598,051	5,999,792	-23.4%
CURRENT LIABILITIES			
Accounts payable	203,379	209,224	-2.8%
Accrued Liabilities and Other Current Liabilities	80,171	85,263	-6.0%
Note Payable, Short-Term	**26,106**	**25,304**	3.2%
Derivative Liabilities	4,029,967	**0**	
TOTAL CURRENT LIABILITIES	4,339,623	319,791	1257.0%
Derivative Liabilities	0	4,039,163	-100.0%
Notes Payable, Long-Term	40,897	47,965	-14.7%
TOTAL LONG TERM LIABILITIES	**40,897**	**4,087,128**	-99.0%
TOTAL LIABILITIES	4,380,520	4,406,919	-0.6%
STOCKHOLDERS' EQUITY (DEFICIENCY)			
Common Stock	2,483	2,457	1.1%
Additional paid-in capital	5,040,158	4,682,359	7.6%
Deficit accumulated during development stage	(4,825,110)	(3,091,943)	56.1%
TOTAL STOCKHOLDERS' EQUITY (DEFICIENCY)	1,592,873	1,592,873	0.0%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	$5,973,393	$5,999,792	-0.4%

STATEMENT OF CASH FLOW

	September 30, 2014	June 30, 2014	Mar. 31, 2014
Net loss	(1,733,167)	(905,831)	(2,186,112)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation and amortization	9,220	6,263	1,229
Stock compensation expense	107,443	76,512	1,436,781
Change in fair value of derivative liabilities	(72,196)	(376,963)	-41,937
Share-based consulting services	250,000	0	0
Changes in assets and liabilities			
Prepaid expenses	8,696	7,218	9,621
Other current assets	-	-	0
Accounts payable	(5,845)	(11,401)	49,787
Accrued liabilities and other current liabilities	(5,090)	17,232	-168,397
Net cash used in operating activities	(1,377,939)	(1,249,970)	-899,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets			
Security deposit			
Purchases of property and equipment	(14,101)	(35,426)	-15,316
Net cash used in investing activities	(14,101)	(35,426)	-15,316
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable			
Repayment of notes payable	(6,267)	(8,299)	-156,187
Proceeds from issuance of common stock	-	-	8,303,225
Proceeds from issuance of demand note			
Net cash provided by financing activities	164,486	(8,299)	8,147,038
NET INCREASE IN CASH	2,193,473	(1,293,695)	7,232,694
CASH, BEGINNING OF PERIOD	-		
CASH, END OF PERIOD	(1,398,307)	(1,293,695)	7,232,694
Cash flow	(1,438,700)	(1,200,019)	(790,039)

HISTORICAL ZACKS RECOMMENDATIONS



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Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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