

## Tapinator, Inc. (TAPM-OTC)

**TAPM: Fast Growing Player in the Rapidly Expanding Mobile Gaming Sector; Initiating Coverage**

### OUTLOOK

Mobile game publisher Tapinator has grown rapidly and seeks to accelerate its growth by adding licensed games and aggressively entering the social casino game niche, beginning with the recent launch of *Video Poker VIP*. Tapinator has an expanding content library that includes more than 120 mobile games, many of which have ranked at the top of the mobile games charts. These games have fueled rising user installations. The company also intends to launch a selective M&A strategy to complement its organic growth.

|                               |               |
|-------------------------------|---------------|
| <b>Current Recommendation</b> | <b>Buy</b>    |
| Prior Recommendation          |               |
| Date of Last Change           | 07/10/2015    |
| Current Price (7/7/15)        | \$0.18        |
| <b>Target Price</b>           | <b>\$0.30</b> |

### SUMMARY DATA

|                           |        |
|---------------------------|--------|
| 52-Week High              | \$2.20 |
| 52-Week Low               | \$0.16 |
| One-Year Return (%)       |        |
| Beta                      | N/A    |
| Average Daily Volume (sh) | 68,074 |

|                               |      |
|-------------------------------|------|
| Common Shares Out (mil)       | 56.9 |
| Market Capitalization (\$mil) | \$10 |
| Short Interest Ratio (days)   | 0.8  |
| Institutional Ownership (%)   | 0    |
| Insider Ownership (%)         | 50   |

|                      |     |
|----------------------|-----|
| Annual Cash Dividend | N/A |
| Dividend Yield (%)   | N/A |

|                               |     |
|-------------------------------|-----|
| 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 2015 Estimate | N/A |
| P/E using 2016 Estimate | N/A |

|               |                  |
|---------------|------------------|
| Risk Level    | High             |
| Type of Stock | Small-Growth     |
| Industry      | Software/ Gaming |

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Year  |
|------|-------|-------|-------|-------|-------|
|      | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2013 |       |       |       |       | 0.1 A |
| 2014 | 0.1 A | 0.2 A | 0.3 A | 0.4 A | 0.9 A |
| 2015 | 0.4 A | 0.5 E | 0.6 E | 0.6 E | 2.1 E |
| 2016 |       |       |       |       | 3.2 E |

#### Earnings per Share

(EPS is operating earnings before non recurring items)

|      | Q1        | Q2       | Q3       | Q4        | Year      |
|------|-----------|----------|----------|-----------|-----------|
|      | (Mar)     | (Jun)    | (Sep)    | (Dec)     | (Dec)     |
| 2013 |           |          |          |           | -\$0.00 A |
| 2014 | -\$0.00 A | \$0.00 A | \$0.00 A | -\$0.00 A | \$0.00 A  |
| 2015 | \$0.00 A  | \$0.00 E | \$0.00 E | \$0.00 E  | \$0.00 E  |
| 2016 |           |          |          |           | \$0.01 E  |

Quarters might not sum reflecting rounding, share count changes

Zacks Projected EPS Growth Rate - Next 5 Years %

N/A

Disclosures begin on page 16

## KEY POINTS

- Mobile game publisher Tapinator has grown rapidly, albeit off a small base, and seeks to accelerate growth by adding licensed games and aggressively entering the social casino game niche, beginning with the recent launch of *Video Poker VIP*. Tapinator is also releasing a game inspired by the Discovery Channel show *Deadliest Catch*.
- With an expanding content library that includes more than 120 mobile games – several of which have made the top 50 mobile games charts – the company also intends to launch a selective M&A strategy to complement its organic growth and has earmarked a portion of \$2.0 million from a recent financing towards this plan.
- Although the company is young and has a limited operating history, management has a longer track record. Founder Ilya Nikolayev launched an early successful Facebook app, *Family Tree*, in 2007 and, along with CFO Andrew Merkatz, subsequently co-founded InAppFuel, which has developed patent-pending casino mini-game software.
- The company's user metrics and library continue to grow. Tapinator's games have collectively achieved about 90 million downloads, up from 50 million at the end of 2014. With the market shift towards in-app purchases, the company hopes to transition its revenue mix over the next couple of years to 50% advertising and 50% micro transactions, up from roughly 80% / 20% historically.
- We believe Tapinator shares represent one of the few pure-play ways for investors to gain exposure to the attractive, high growth mobile games sector.

## OVERVIEW

Established in 2013, New York City based Tapinator (OTC:TAPM) is an emerging developer and publisher of mobile games, which the company releases globally on the iOS, Google Play, and Amazon Kindle gaming platforms. Google and Apple are among in the top five public companies ranked by estimated 2015 game revenues, according to market research firm Newzoo. Tapinator offers original, full-featured premium games, as well as rapidly developed, mass-appeal games. Although it is a young company, several Tapinator games have ranked among the top 50 mobile games on the iPhone, iPad, and Google Play app storefronts. For example, Tapinator's *Extreme Car Stunts 3D* and *Extreme Bike Stunts 3D* currently rank #30 and #54 respectively among new games on the Google play store, according to App Annie. The company is able to maintain an efficient cost structure by utilizing multiple development studios in offshore markets. Tapinator operates studios in Denmark, Pakistan, Canada, and Russia, as well as at its New York City headquarters.

Founder Ilya Nikolayev entered the app arena in 2007 with the launch of an early Facebook (FB-not rated) app called *Family Tree*, which allowed users to enter their family records to build their family trees and interact with other family members. Once the tree was built, users could move around it to view different aspects of their family heritage. *Family Tree* was one of the leading non-gaming apps on Facebook for a time, according to management. It was sold to online information commerce company Intelius in 2011.

In 2013, Ilya Nikolayev, along with Tapinator's CFO Andrew Merkatz, co-founded InAppFuel, which has developed patent-pending casino mini-game software. Mobile game developers can use this software to offer mini-games within their games to improve monetization. The concept of InAppFuel is to drive revenue and engagement within the game. The types of recurring mini-games that InAppFuel enables—free daily spin and free daily ticket are examples – generally create stickiness with users. The expectation is that a portion of the recurring players will be converted into paid customers. This is a strategy that larger game developers such as Zynga (ZYNG-not rated) have employed successfully, but smaller players have often found cost prohibitive.

InAppFuel provides the mini-games for developers that cannot afford to create the mini-games in-house themselves. InAppFuel's mini-games "improve the [game's] monetization by 15 percent to 30 percent," according to VentureBeat. In October 2014, Tapinator purchased the assets and liabilities of InAppFuel's mobile mini-game software business. Management believes folding InAppFuel into Tapinator potentially adds another revenue stream from other developers' games.

Historically, Tapinator's focus has been on developing and operating proprietary titles. The company has amassed a content library of more than 120 owned and operated mobile gaming titles, according to App Annie. Management has indicated that these games collectively have attained more than 90 million downloads. The company also publishes third-party games in which it holds a substantial ownership stake. Several games have climbed to the top of the mobile leaderboards. For example, out of five Full Featured Games that Tapinator has launched on the iOS platform, three have ranked among the Top 50. Historically, the company's revenue / game has averaged \$21.6K against an average development and production cost of about \$6.5K. This implies significant ROI and the ability to scale the company as the library grows, in our view. Tapinator's average revenue / game lags that of competitors such as Glu Mobile, whose metrics are impacted by high performance games such as *Kim Kardashian*, among other celebrity titles. Tapinator's revenue / game potentially could increase as the company adds more licensed and social casino games, in our view.

### Free-to-Play Business Model

The company strives to release one to two new Rapid Launch games every week. On its Rapid Launch games, its business model is to make the games free-to-play to gamers and monetize content primarily through advertising. With Full Featured games, Tapinator relies primarily on in-app purchases. Roughly 80% of the games have historically been ad supported free-to-play, with the other roughly 20% monetized through in-app purchases. To minimize disruption to players, ads occur between levels as players move up in the game and when the game ends. Users can also purchase new levels of play in order to progress within the game, which represents another revenue source.

Historically, most social games have been free-to-play, generating revenue through in-game sales of virtual goods, according to VentureBeat. In general, free-to-play games tend to attract a wider audience of players who, in turn, could potentially be converted to paying users through purchases of in-app virtual goods or by paying to progress to more challenging game levels. The worldwide market for sales of virtual goods was estimated at roughly \$15 billion in 2014, according to market research provider In-Stat.

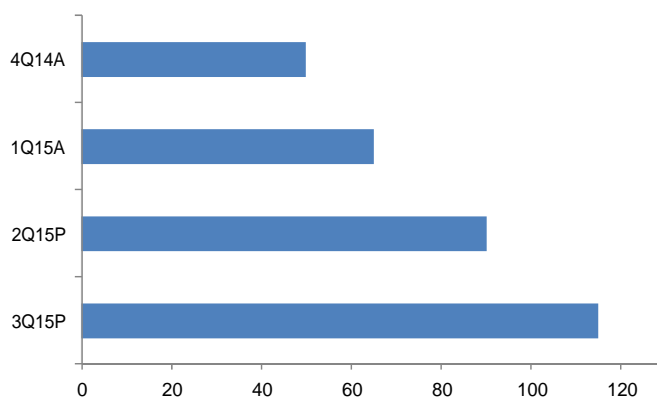
## GROWING FOCUS ON RECOGNIZABLE BRANDS AND CASINO GAMES



Tapinator's strategy has been to develop software engines that it can leverage to support multiple games that offer similar gameplay. For example, *Trucker Parking*, *Transporter Plane* and *Ambulance Rescue* shown above all utilize virtually the same software engine. Each has been customized to create a variation on the gameplay of simulated driving.

Tapinator games enjoy an average game lifecycle of roughly 18 months, according to management. The company's strategy is to then launch spin-offs and sequels, as well, in order to further leverage the gameplay and engineering. A number of titles have made the list of top mobile titles and have been featured by the Apple, Google, and Amazon App Stores, as noted. *Burn It Down*, for example, was featured as a Best New Game on the Apple iOS platform. It ranked among the top 50 free games, top 10 puzzle game and top 10 adventure game within the top 50 free iOS games. The game was also included on Time Magazine's April 28, 2015 five best iPhone games of the week list. As of May 2015, the company had 16 games that had attained one million or more users.

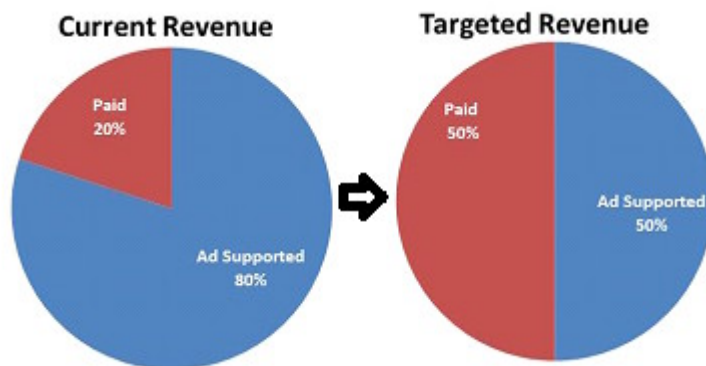
Tapinator - Growing Installations



Source: Company reports

Tapinator's rising traction with gamers is reflected in a growing base of user installations, we believe. Tapinator announced that its installations had reached roughly 90 million, up from 65 million at the end of 1Q15 and 50 million at the end of 2014. The company also recently announced that daily installations had reached 400,000. These metrics imply installations at the 115 million level by the end of the third quarter 2015, we believe, if the company is able to maintain this trajectory. The company intends to contain player acquisition costs by cross-promoting new games to this growing user network.

Until recently, the company had been almost exclusively focused on free-to-play mobile games, as noted. In the early days of mobile gaming, players had gravitated more heavily toward free-to-play games. However, with the increase in time spent on mobile games, consumers' willingness to spend on mobile games has also increased. With the market shift towards in-app purchases, and the launch of its first social casino product, the company hopes to transition its revenue mix over the next 12-24 months from 80% advertising to 50% advertising and 50% micro transactions.



Source: Company reports

Towards this goal, Tapinator's business model has also recently expanded to include a greater focus on licensed game titles that leverage well-known brands. Management believes the successful launch of two recent celebrity games – *Nik Wallenda in Sky Balance* and *Melissa Etheridge* in a song-based game – support its decision to pursue this strategy. The *Nik Wallenda* game was released in November 2014 to coincide with a special broadcast on the Discovery Channel.

Now, Tapinator is releasing a game inspired by Discovery's show *Deadliest Catch*. The show follows the activities of the captains and crews of four crab-fishing ships on the Bering Sea. The company is optimistic about the prospects for this title, particularly given the marketing support that the game will receive from Discovery and the popularity of the *Deadliest Catch* show itself, which has been renewed for the upcoming 2016 television season.

The *Deadliest Catch: Seas of Fury*<sup>™</sup> game will allow players to simulate the experience through 20 levels of progressive difficulty. HyperPower Game Group, a small, independent studio, obtained the license from Discovery and partnered with Tapinator. The two companies had previously jointly developed and released the above noted *SkyBalance by Nik Wallenda*<sup>™</sup> game. Compared to original IP, the company believes the existing brand awareness of a licensed game can lead to lower gamer acquisition costs and will allow the company to accelerate its user installations. The company is also optimistic that the game will monetize at better rates than its proprietary non-branded genres. Other companies in the industry have had strong results with branded titles. For example, Glu Mobile (GLUU-not rated) has indicated that *Kim Kardashian: Hollywood* is one of its most popular titles. It accounted for 34% of its total 1Q15 revenue. *The Simpsons: Tapped Out* averaged more than 16 million monthly players in FY 2015, according to Electronic Arts (EA-not rated).

### Growing Focus on Social Casino Gaming

Another way Tapinator hopes to shift its revenue mix is through its recent decision to enter the social casino gaming niche. Social casino games are casino-style games such as blackjack, poker, slots and others that monetize through virtual currency purchases instead of real money payouts, according to VentureBeat. Social casino games generate over \$2.5 billion annually, with the lion's share of revenue from mobile users. More than half (52%) of market share is concentrated among the top five companies: Caesars, IGT, Zynga, Sony, and Churchill Downs, according to market analyst firm App Annie. Idle Gaming had success with its *Fresh Deck Poker* game and was recently acquired by Sony's GSN. There is some concern that the social casino gaming market has matured and that growth has slowed. Tapinator believes that video poker is less competitive than other social casino categories on mobile platforms and represents a strong growth opportunity.

### Successful Social Casino Games

|                  |                   |
|------------------|-------------------|
| Caesars          | Slotomania        |
| IGT              | DoubleDown Casino |
| Zynga            | Hit It Rich!      |
| Scientific Games | Jackpot Party     |

Source: Fortune, Venture Beat

In May 2015, Tapinator launched its first social casino game, *Video Poker VIP*, on the iOS platform for iPads. *Video Poker VIP* combines popular video poker gameplay with mobile slot machine-like mechanics, according to management. The company intends to broaden *Video Poker VIP* distribution to the iPhone, Google Play and the Amazon Appstore.

### M&A to Enhance Organic Growth

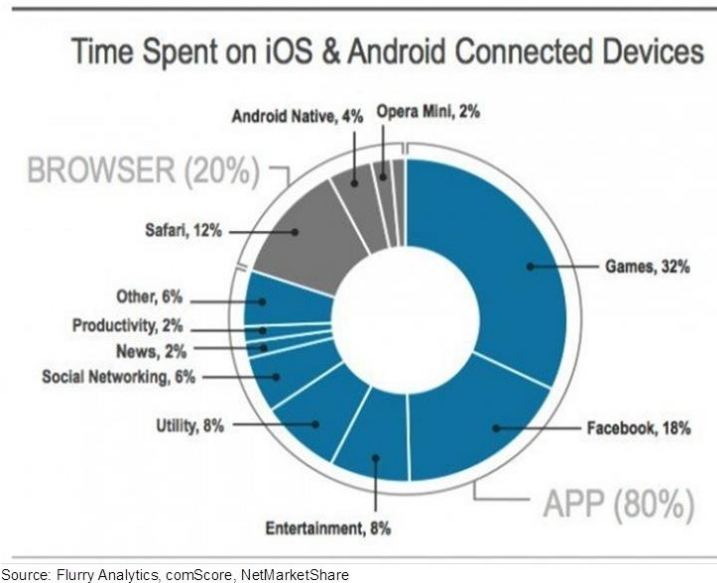
The company also intends to launch a selective M&A strategy to complement its organic growth. Given the number of smaller, less capitalized developers in mobile gaming, management believes there may be opportunities to acquire assets including new game titles and to augment its engineering team through accretive deals. Tapinator has earmarked a portion of \$2.0 million that it raised recently for accretive transactions. Although it is young, the company believes that reflecting its successful track record to-date, management's history in the gaming industry and the financial flexibility enabled by the recent financing, it is well positioned to acquire assets from independent developers that may not have similar resources and infrastructure. The company also believes that its recent purchase of InAppFuel could lead to relationships with potential acquisition candidates.

## MOBILE GAMING INDUSTRY

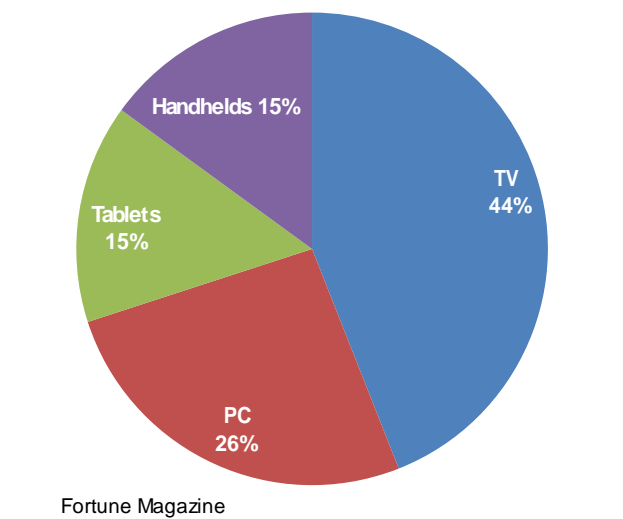


The mobile gaming market has enjoyed rapid growth in recent years, with expansion generally expected to continue, as gaming on smart devices climbs. Mobile game revenues increased more than 40% year-over-year in 2014, according to research firm Newzoo, driven by the ongoing shift from computers and consoles to tablets and other smart devices. Newzoo pegs global mobile game revenue at \$25 billion. While traditional modes of game continue to dominate in the U.S. – with TVs and PCs accounting for a combined 70% of total game revenue – that is expected to change, reflecting the rapid expansion of mobile game revenue. In fact, on a global basis, mobile game revenue is forecast to exceed console game revenue for the first time this year, according to Fortune magazine. Mobile gaming represents one of the biggest categories of daily app purchases on mobile devices, according to Nielsen. Nielsen also

notes that the time domestic users spend playing online games has exceeded the time they spend on email. This is supported by data from other research firms, as well. comScore, for example, indicates that playing games accounts for roughly a third of total times spent on smartphones.

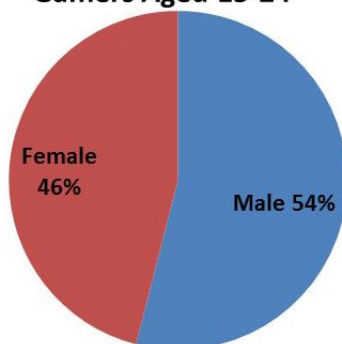


### U.S. Gaming Revenue Breakdown by Device



The U.S. contains the highest number of gamers in the 13-34 demographic. The number of U.S. mobile gamers increased by 35% in 2012 to 100 million and is expected to continue to grow, as the smartphone and tablet game markets expand. The U.K., France and Germany have registered high percentages, as well. In addition, NPD Group's Online Gaming 2013 report found significant year-over-year growth in the number of gamers playing online, as well the number of hours they spent gaming each week. According to the survey of more than 8,800 domestic respondents, 72% played games online, up from 67% noted in the prior year's survey. Gamers also reported playing for longer periods of time, with the average weekly time spent playing online up 6%. The PC was the most popular device for playing, but almost all devices registered increased online playtime in 2013, according to NPD. Not surprisingly, reflecting growing penetration, mobile devices registered a double digit percentage point increase.

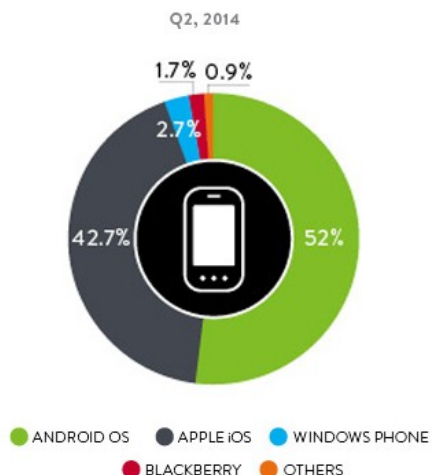
### Gamers Aged 15-24



Source: NPD

Of the universe of online gamers under the age of 24, 54% are males and 46% are females. Importantly, 35% of U.S. online gamers purchased virtual goods in 2011, up 50% from those who made such purchases in 2010. Of this group, 50% of U.S. online males 24 and under and 15% of females 24 and under purchased virtual goods in 2011. According to the Entertainment Software Association, a rising percentage of parents are involved in some capacity in their children's purchases and game play.

### TOP U.S. SMARTPHONE OPERATING SYSTEMS BY MARKET SHARE



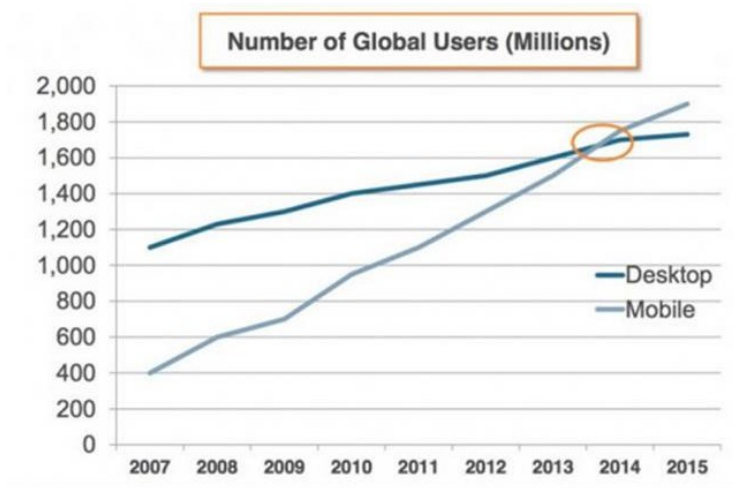
During Q2, 2014, 52% of U.S. smartphone owners used a handset that runs on the Android operating system.

Source: Nielsen

### Growing Mobile Installed Base

Mobile technology penetration has grown dramatically over the past decade. Adoption rates of mobile devices such as smartphones and tablets have tracked significantly ahead of that of other technology platforms such as PCs or broadband. There were 1.2 billion smartphones and tablets shipped in 2013 according to IDC, with 218 million designated for business use. Smartphone penetration reached 65.2% of the U.S. mobile subscriber market during the fourth quarter of 2013, according to comScore, up more than 11% points from the same time frame a year earlier. Smartphones took only 8-years to reach 20+% penetration globally.





Source: comScore

Moreover, the worldwide mobile device market has shifted toward more media rich smartphones over the past few years, reflecting the popularity of the Apple iPhone, Samsung's Galaxy and other media rich products. At the same time, tablet shipments have increased, as well, although growth appears to have slowed recently. The strong growth of media rich smartphones and tablets has expanded the addressable market for Tapinator.

## COMPETITON

Mirroring relatively low barriers to entry in developing mobile games, the mobile games market is characterized by a large number of relatively small developers and is highly competitive. Not surprisingly many of the larger console gaming companies such as Electronic Arts and Activision (ATVI-not rated) have entered the mobile market, as have social gaming companies such as Zynga. Glu Mobile is a leading player in the mobile game space, while Rovio, King (KING-not rated), DeNA and GREE have had strong results, as well.

### Glu Mobile

Founded in 2001, Glu Mobile represents a pure-play way for investors to gain exposure to the mobile game sector. The company is headquartered in San Francisco and operates locations in Canada, China, India, Japan, Korea, and Russia. Glu publishes free-to-play games for smartphones and tablets. Its titles include *Racing Rivals*, *Kim Kardashian: Hollywood* and *Robocop*, among others. The company has also announced partnerships with Katy Perry and Britney Spears for additional celebrity games. China-based Tencent recently purchased a 14% stake in Glu Mobile.

### Zynga

San Francisco-based Zynga is a leading developer of social games. The company originally gained recognition with its *FarmVille* social game, which it launched in 2007. Zynga has indicated that its social games are played by more than 100 million consumers each month. With the recent acquisition of NaturalMotion in early 2014, the company has moved more aggressively into mobile games, as well. Through NaturalMotion, the company plans the introduction of action game *Dawn of Titans*.

### Supercell

Established in 2010, privately-held Supercell is based in Finland. The company has had strong success with *Clash of Clans*, which it introduced in August 2012. In October 2013, Japan-headquartered SoftBank purchased a controlling 51% stake in the company. SoftBank recently increased its investment to 73.2%, as early stage venture capitalists sold their stakes.

## King Digital

Founded in 2003, Dublin based King Digital Entertainment is another leading mobile games publisher. It publishes its mobile games on platforms including the Apple App Store, Google Play Store, Amazon App store and Windows App store. The company operates game studios in Stockholm, Bucharest, Malmo, London, Barcelona, Berlin, Singapore, and Seattle and has a presence in San Francisco, as well. The company's *Candy Crush Saga* game has been one of the most popular mobile games, while King has recently also enjoyed success with *Farm Heroes* and *Pet Rescue*, among other titles.

Top-grossing mobile games such as *Clash of Clans* and *Candy Crush Saga* noted above are among hundreds of thousands of games. With an estimated more than 125,000 active games available on the Apple App Store, the extensive number of titles often makes it difficult for publishers to differentiate a new game. Moreover, the entrance of well-capitalized, larger gaming companies into the mobile space is also expected to drive marketing and player acquisition costs higher, particularly with companies such as Supercell escalating their marketing spend. For example, Supercell aired a Superbowl ad earlier this year that featured Liam Neeson playing *Clash of Clans*. It was the most watched Superbowl ad on YouTube, according to VentureBeat.

These trends might make it more difficult for smaller players to gain traction, in our view, and drive up player acquisition costs, which currently average roughly \$3 / download, according to VentureBeat. Nevertheless, given how young the market is, the ongoing shift in game consumption to mobile platforms and the fragmented nature of the space, we believe that in success, Tapinator could still enjoy early mover advantage.

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## VALUATION

Tapinator offers one of only a handful of ways to gain pure-play exposure to the expanding mobile gaming space, in our view. While the company itself has only a short operating history, management has already had success with prior endeavors, including *Family Tree* and *InAppFuel*. Moreover, Tapinator has had a solid record of attaining ranked status with several of its games and continues to build its library. Tapinator has had several single-base successes with games such as *Burn It Down*, *Extreme Car Stunts 3D* and *Extreme Bike Stunts 3D*. In the aggregate, these games have fueled strong revenue growth (+329% in 1Q15) and enabled the company to attain positive EBITDA. However, with no breakout home run such as Supercell's *Clash of Clans* or King's *Candy Crush Saga*, we believe the shares are not really on investor radar screens at this point. Over time that may change, as the company continues to build its business based on solid singles complemented by some strategic growth oriented transactions.

Our favorable view is predicated on the company's opportunity to penetrate a young, rapidly growing mobile gaming market. In our view, the shares represent an option on management's ability to execute its strategy in a cost effective way and capitalize on this rapid growth. While the shares are not particularly inexpensive, in our view – they trade at 4.9x and 3.2x our respective 2015 and 2016 revenue projections, which is in-line to slightly above the peers – we believe that comparing Tapinator to other companies in the sector is somewhat difficult at this early stage of the company's development. Many other players with longer histories, broader networks and higher recognition would not be direct benchmarks for a start-up such as Tapinator, in our view. Conversely, in success, we would expect Tapinator to have a higher growth rate in the early years.

Moreover, we also believe that our 2015 and 2016 projections could prove conservative, if the company can maintain the strong growth that we have seen thus far, supported by its growing library and entrance into licensed and casino games. We initiate coverage with a Speculative Buy rating and an initial \$0.30 price target. This equates to 5.3x our 2016 revenue estimate, but as we have indicated, our 2016 forecast could be conservative. Licensed and social casino games are relatively new components of the company's strategy and could contribute more meaningfully than we have projected at this early stage.

There are only a few ways for investors to gain exposure to this space and we believe TAPM shares represent one of the few pure plays, as noted. At the current price, we believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon.

Interest from larger companies also underscores the sector's attractive growth prospects, in our view. For example, China's Tencent acquired a 14.6% stake in Glu Mobile and also acquired a 28% stake in South Korea based CJ Games, according to Digi-Capital. Ourpalm, another company based in China, acquired Playcrab for \$285 million. Ourpalm also invested \$2.3 million in Animoca Brands, which publishes mobile games based on the Garfield character and trades on the Australian exchange. As noted, Softbank holds the majority 73.2% stake in Supercell.

#### Tapinator Peer Analysis

| Company          | Ticker | 7/8/2015<br>Price | 52-Week |       | Revenue (\$M) |       |       | EPS    |        |        |
|------------------|--------|-------------------|---------|-------|---------------|-------|-------|--------|--------|--------|
|                  |        |                   | High    | Low   | 2014A         | 2015E | 2016E | 2014A  | 2015E  | 2016E  |
| Activision       | ATVI   | 24.80             | 26.09   | 17.73 | 4,810         | 4,480 | 4,910 | 1.42   | 1.24   | 1.49   |
| DeNA Co.         | DNACF  | 18.90             | 24.00   | 11.60 | 1,163         | -     | -     | 0.94   | -      | -      |
| Electronic Arts* | EA     | 69.00             | 70.94   | 31.77 | 4,320         | 4,460 | 4,730 | 2.51   | 2.85   | 3.25   |
| Glu Mobile       | GLUU   | 5.95              | 7.60    | 3.27  | 242           | 280   | 329   | 0.31   | 0.22   | 0.32   |
| King Digital     | KING   | 14.39             | 21.43   | 10.68 | 2,280         | 2,090 | 2,090 | 2.30   | 1.94   | 1.80   |
| Take Two*        | TTWO   | 27.25             | 30.80   | 21.13 | 1,670         | 1,430 | 1,710 | 1.98   | 1.05   | 1.78   |
| Zynga            | ZNGA   | 2.74              | 3.27    | 2.20  | 694           | 698   | 808   | (0.01) | (0.02) | 0.05   |
| Tapinator        | TAPM   | 0.18              | 2.20    | 0.16  | 1             | 2     | 3     | \$0.00 | \$0.00 | \$0.01 |

| Company          | Mkt<br>Cap (\$M) | EV / Revenue |       |       | P/E   |       |       |
|------------------|------------------|--------------|-------|-------|-------|-------|-------|
|                  |                  | 2014A        | 2015E | 2016E | 2014A | 2015E | 2016E |
| Activision       | 18,010           | 3.7x         | 4.0x  | 3.7x  | 17.5x | 20.0x | 16.6x |
| DeNA Co.         | 2,449            | 2.1x         | nm    | nm    | 20.1x | nm    | nm    |
| Electronic Arts* | 21,708           | 4.5x         | 4.9x  | 4.6x  | 27.5x | 24.2x | 21.3x |
| Glu Mobile       | 716              | 2.7x         | 2.6x  | 2.2x  | 19.2x | 27.0x | 18.6x |
| King Digital     | 4,473            | 1.5x         | 2.1x  | 2.1x  | 6.3x  | 7.4x  | 8.0x  |
| Take Two*        | 2,306            | 1.0x         | 1.6x  | 1.3x  | 13.8x | 26.0x | 15.3x |
| Zynga            | 2,151            | 2.7x         | 3.1x  | 2.7x  | nm    | nm    | 54.8x |
| Tapinator        | 10               | 10.9x        | 4.9x  | 3.2x  | nm    | 60.7x | 30.9x |
| Average          |                  | 2.6x         | 3.0x  | 2.8x  | 17.4x | 20.9x | 22.4x |

\* March YE for EA and TTWO

Source: Company reports, Yahoo Finance, Zacks

## MANAGEMENT

Ilya Nikolayev founded Tapinator in 2013. Prior to that, he was the Co-Founder and CEO of Familybuilder and its *Family Tree* application until *Family Tree* was sold to Intelius in 2011. Before launching Familybuilder, he worked in the financial sector at JP Morgan.

Harvard MBA Andrew Merkatz joined Tapinator as President and CFO last month. He is a finance executive who has about 20 years of experience as both an investor and operator in high growth media and technology companies, with the last seven years focused on technology investments as a Managing Director at investment firm Vision Capital. Along with Ilya Nikolayev, he was also a co-founder of Familybuilder and InAppFuel. He will be responsible for spearheading Tapinator's corporate development and acquisition strategy.

CTO Khurram Samad, who is based at the company's Pakistan studio, oversees Tapinator's offshore Rapid Launch Game engineering and design team. Prior to Tapinator, he founded GeniTeam, which was an outsourced mobile games development company with more than 40 developers.

Robert Crates, a director on Tapinator's board, is a principal at CT Capital Partners. He has more than 25 years of experience in private equity and has invested in technology and entertainment, among a wide variety of sectors. He has served on the boards of both public and private companies.

Georgi Darakel is the company's Lead Game Engineer. He led all feature development at Familybuilder, as well.

Teymour Farman-Farmaian, Tapinator's Senior Marketing Advisor, has significant experience. Prior to joining Tapinator, he was the general manager of Strategic Partnerships at Zynga, CMO at Spotify, and Senior Director of Sales at Google.

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## INSIDER HOLDINGS

Insiders hold more than 50% of Tapinator shares, which likely aligns their interests with those of public shareholders, we believe. The company's two largest shareholders are its CEO and its Chief Technology Officer.

Ilya Nikolayev owns 22.2% of Tapinator common shares.

Khurram Samad owns 26.9% of TAPM common shares.

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## RECENT NEWS

On May 28, 2015, Tapinator released its 2013 and 2014 financial statements.

The company announced the results for its first quarter of 2015 on May 21, 2015.

On May 12, 2015, the company announced the planned release of its *Deadliest Catch* game based on a license with Discovery Communications (DISCA-not rated).

Tapinator launched its first social casino game, *Video Poker VIP*, on May 7, 2015.

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## FINANCIAL HISTORY

Tapinator has a brief operating history, having only been launched in 2013. The company's results have been marked by strong revenue growth. Specifically, in the recently reported first quarter, Tapinator achieved record revenue of \$411,883, which represented a 329% year-over-year advance from \$95,984 registered in the prior year first period. Net income was \$5,840 compared to a net loss of (\$8,133) for 1Q14. Adjusted EBITDA was \$62,728 versus (\$7,918) registered in 1Q14.

During the quarter, the company released 20 new titles, which brought its portfolio to more than 100 games. *Combo Quest*; *Endless Balance*, which it introduced in 1Q15, was featured as Best New Games on the iOS platform and attained a company record high of 245,000 new daily installs on Google Play during the quarter.

### Balance Sheet

At the end of 1Q15, Tapinator had cash and equivalents of \$70,753. Subsequent to the quarter, the company raised \$2.0 million, as noted, through the issuance of a \$2.24 million 8% senior convertible note due January 1, 2017, with five-year warrants to purchase 10.9 million shares and five-year callable warrants to purchase 10.9 million shares.

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## RISKS

- TAPM is under-capitalized and may need to seek additional short-term funding that could dilute shareholders.
- Competition continues to increase, which could make it difficult for TAPM to execute its growth strategy.
- Industry spending on player acquisitions and marketing could push Tapinator to increase its spending, as well, which could have a negative impact on the company's results and cash position.
- The company is not fully reporting.
- The social casino gaming sector could prove more competitive and difficult to penetrate than management anticipates.

## PROJECTED INCOME STATEMENT AND BALANCE SHEET

### Tapinator, Inc. Income Statement & Projections (\$)

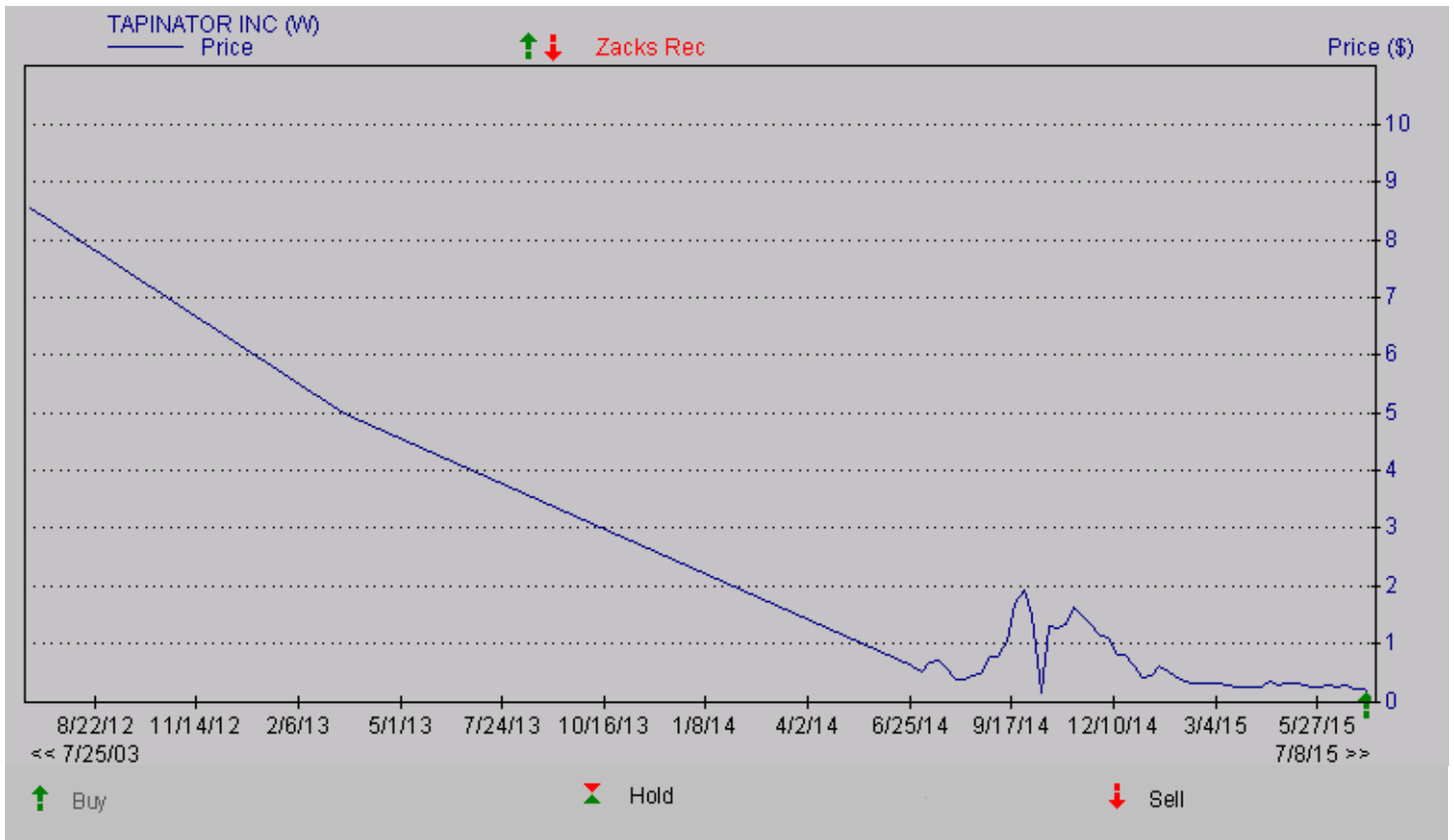
|                            | 1Q14       | 2Q14       | 3Q14       | 4Q14       | 2014       | 1Q15A      | 2Q15E      | 3Q15E      | 4Q15E      | 2015E       | 2016E       |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Revenue                    | \$95,984   | \$226,320  | \$250,339  | \$370,806  | \$943,449  | \$411,883  | \$509,220  | \$550,746  | \$591,436  | \$2,063,284 | \$3,156,825 |
| Expenses                   |            |            |            |            |            |            |            |            |            |             |             |
| Platform fees              | 28,763     | 67,736     | 73,322     | 110,867    | 280,688    | 132,000    | 152,766    | 165,224    | 177,431    | 627,420     | 947,048     |
| Research and development   | 55,300     | 125,939    | 79,172     | 80,754     | 341,165    | 91,307     | 96,752     | 104,642    | 112,373    | 405,073     | 494,189     |
| General and administrative | 20,029     | 20,246     | 64,009     | 192,865    | 297,149    | 163,836    | 180,220    | 182,022    | 182,932    | 709,009     | 886,262     |
| Total expenses             | 104,092    | 213,921    | 216,503    | 384,486    | 919,002    | 387,143    | 429,737    | 451,887    | 472,735    | 1,741,503   | 2,327,499   |
| Operating income (loss)    | (8,108)    | 12,399     | 33,836     | (13,680)   | 24,447     | 24,740     | 79,483     | 98,859     | 118,700    | 321,781     | 829,327     |
| Interest expense           | -          |            |            | 15,941     | 15,941     | 15,754     | 16,872     | 16,872     | 17,435     | 66,934      | 67,603      |
| Pretax income (loss)       | (8,108)    | 12,399     | 33,836     | (29,621)   | 8,506      | 8,986      | 62,610     | 81,986     | 101,265    | 254,848     | 761,723     |
| Income taxes               | 25         |            |            |            | 614        | 3,146      | 21,914     | 28,695     | 35,443     | 89,198      | 266,603     |
| Net income (loss)          | (8,133)    | 12,399     | 33,836     | (29,621)   | 7,892      | 5,840      | 40,697     | 53,291     | 65,822     | 165,650     | 495,120     |
| Per share data:            |            |            |            |            |            |            |            |            |            |             |             |
| LPS                        | (\$0.00)   | \$0.00     | \$0.00     | (\$0.00)   | \$0.00     | \$0.00     | \$0.00     | \$0.00     | \$0.00     | \$0.00      | \$0.01      |
| Avg. shares out            | 36,700,000 | 45,874,372 | 55,498,545 | 55,570,208 | 55,641,871 | 55,819,919 | 55,819,919 | 55,819,919 | 55,819,919 | 55,819,919  | 55,819,919  |
| Operating margin           | -8%        | 5%         | 14%        | -4%        | 3%         | 6%         | 16%        | 18%        | 20%        | 16%         | 26%         |
| Y/Y Growth (%)             |            |            |            |            |            |            |            |            |            |             |             |
| Revenue                    |            |            |            |            | 620%       | 329%       | 125%       | 120%       | 60%        | 119%        | 53%         |

### Tapinator, Inc. Consolidated Balance Sheets (\$)

|  | 31-Dec-13     | 30-Jun-14      | 30-Sep-14      | 31-Dec-14        | 31-Mar-15        |
|--|---------------|----------------|----------------|------------------|------------------|
| Cash & equivalents                         | 12,418        | 24,415         | 213,072        | 121,740          | 70,753           |
| Accounts receivable                        | 34,198        | 139,371        | 116,366        | 130,681          | 137,682          |
| Due from related parties                   | 9,790         | 57,160         | 117,168        | -                | -                |
| Total current assets                       | 56,406        | 220,946        | 446,606        | 252,421          | 208,435          |
| Property and equipment                     | 2,158         | 1,777          | 1,587          | 17,500           | 6,213            |
| Software development costs                 | -             | 3,078          | 176,954        | 1,260,865        | 1,367,249        |
| Investments                                | -             | 12,500         | 14,086         | 19,086           | 19,086           |
| Security deposits                          | 5,690         | 5,800          | 5,800          | 19,840           | 14,040           |
| <b>Total assets</b>                        | <b>64,254</b> | <b>244,102</b> | <b>645,033</b> | <b>1,569,712</b> | <b>1,615,023</b> |
| Accounts payable                           | 9,750         | 10,535         | 3,442          | 6,596            | 961              |
| Accrued expenses                           | 7,000         |                |                | 50,329           | 35,235           |
| Due to related parties                     | 25,811        | 130,107        | 205,374        | 129,327          | 112,273          |
| Total current liabilities                  | 42,561        | 140,642        | 208,816        | 186,252          | 148,469          |
| Notes payable                              | -             | -              | -              | 203,954          | 281,208          |
| <b>Total liabilities</b>                   | <b>42,561</b> | <b>140,642</b> | <b>208,816</b> | <b>390,206</b>   | <b>429,677</b>   |
| Redeemable Preferred Stock                 |               |                |                | 773,499          | 773,499          |
| Total stockholders' equity                 | 21,693        | 103,459        | 436,217        | 406,007          | 411,847          |
| <b>Total liabilities and stockholders'</b> | <b>64,254</b> | <b>244,102</b> | <b>645,033</b> | <b>1,569,712</b> | <b>1,615,023</b> |

Source: Company reports, Zacks

# HISTORICAL ZACKS RECOMMENDATIONS



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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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