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Pareteum (NYSE American/TEUM)
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BUY Growing Backlog, Positive EBITDA
Pareteum provides mobility cloud platform and software solutions
Investment Highlights

1) Pareteum (formerly Elephant Talk (ETAK)) has accelerated its new contract activity in recent weeks, most recently by signing a 3-year, \$1 million contract to provide virtual network enablement connectivity for Internet of Things (IoT) into the Middle East, followed up this week with a \$4 million 3-year contract for Global Mobility Cloud services to one of the world's largest global contact center (formerly referred to as call centers) – one which processes over 80 million messages monthly. Earlier this month, Pareteum announced a new 3-year contract for connectivity services with a retailer of IP telephony technology for mobile phones, phone card and internet services through kiosks located in airports, railway stations and shopping malls worldwide. The Company also announced recently a 3-year contract award with a West Coast (US) service provider for mobility, voice messaging and infrastructure for the Application Programming Interface (API) developer community. All-in-all, the new contracts are expected to add significantly to the Company's current \$60 million (3-year) revenue backlog.

2) The Company also reported strong financial results for their most recent Q2/17 period, including revenues of \$3.2 million, an increase of 16% quarter-over-quarter and level with revenues of Q2/2016, and positive adjusted EBITDA of \$463,000, as compared to a negative EBITDA of (\$691,000) for the same period one year ago and (\$198,000) for the first quarter of 2017. Revenue growth was driven by increased sales to MVNO customers Vodafone and ZAIN, offset by sales to customers in the Netherlands and sales of the since-divested ValidSoft subsidiary. Positive adjusted EBITDA amounts were aided by improved gross margins, as well as significantly reduced product development and general and administrative costs. Pareteum's revenue backlog increased to approximately \$60 million at the end of the second quarter, a 41% increase just over the most recent quarter and nearly three times the backlog at the start of this year. Net cash used in operating activities for the first six months of

Current Price \$1.03
Price Target \$2.10

Estimates	F2015A	F2016A	F2017E
Revenue(\$000s)	\$31,015	\$12,856	\$13,134 E
1Q March	5,013	3,274	2,795 A
2Q June	19,244	3,267	3,239 A
3Q September	3,486	3,171	3,300 E
4Q December	3,272	3,144	3,800 E
EPS	(\$0.79)	(\$4.67)	(\$0.65) E
1Q March	(0.01)	(0.66)	(0.14) A
2Q June	0.06	(0.43)	(0.10) A
3Q September	(0.03)	(0.08)	(0.20) E
4Q December	(0.81)	(3.50)	(0.21) E
P/E (x)	N/A	N/A	N/A
EBITDA/Share	\$2.00	\$0.20	\$0.09
EV/EBITDA (x)	N/A	N/A	15.9

Stock Data	
52-Week Range	\$0.50-\$5.75
Shares Outstanding (mil.)	14.5
Market Capitalization (mil.)	\$14.9
Enterprise Value (mil.)	\$20.3
Debt to Capital (6/17)	234.1%
Book Value/Share (6/17)	N/A
Price/Book	N/A
Average Trading Volume (3-month)	921,000
Insider Ownership	9.0%
Institutional Ownership	17.4%
Short interest (mil.)	0.3
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:
 Update - September 22, 2017 – Buy - Target \$2.10
 (from Target of \$2.25 or \$56.25 after 1-25 reverse split)

Please find Important Disclosures beginning on Page 5.

the year was approximately \$811,000 and at the end of June the Company held a little over \$1.44 million in cash and equivalents.

3) Pareteum is also making progress in its long-term new service development program, including opening up new international markets and entering into new service areas. In July, Pareteum launched full-featured 4G Broadband services, an offering which is expected to create dynamic opportunities in attracting new subscribers while driving incremental recurring revenue streams to the Company, for example with applications for data-rich mobile web access, IP telephony, gaming services, video conferencing and virtual reality. Earlier in the quarter, Pareteum launched its on-demand, hosted Home Location Register (HLR) service offering, which enhances a customer's subscriber database management and billing capabilities, and has already led to the addition of three new customers since product launch. Finally, Pareteum entered the Brazilian market earlier this year with a 7-year Software-as-a-Service (SaaS) contract with a leading Brazilian financial and marketing company that includes paid-in-advance fees and guaranteed recurring monthly service revenues and a contract minimum of close to \$2 million.

Conclusion/Stock Valuation

With a new, experienced management team, growing revenues and backlog stressing recurring revenue and higher-margin contracts, an improved balance sheet and successful cost-reduction program, investors have much to like about Pareteum at the moment. Thus, we are maintaining our BUY rating on Pareteum due to the above positive factors as well as changes in research staffing. We are changing our Price Target to \$2.10 on these shares, (from \$2.25 or \$56.25 after a 1-25 reverse split) based on a 3-member comparable group of telecom service (non-consumer) stocks including Lumos Networks (LMOS, Not Rated), GTT Communications (GTT, Not Rated), and Level 3 Communications (LVLT, Not Rated). Pareteum (TEUM) shares currently trade at a considerable discount to others in this group, and using an average valuation of 2.2X annual revenues for this year and next, we estimate a stock valuation of \$2.10 for TEUM shares, and therefore we are maintaining our BUY rating on TEUM shares with a 12-18 month price target of \$2.10 per share.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by Pareteum with other companies in the industry, we believe an investment in TEUM involves the following risks:

- **Reliance on key management** – At present, TEUM relies on several key members of its management team who have been in key executive positions for an extended period of time. Should one or more of these key executives leave the Company, TEUM could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on partnerships** – To date, TEUM has signed a number of distribution and joint venture partnerships for its technologies and services. Thus, in the future certain factors related to sales and new product development may be determined by third parties and out of the control of Company management.
- **Limited stock liquidity** – Trading volume in TEUM stock is comparatively light and these shares have a relatively limited history of trading on major US stock exchanges compared with other technology stocks. As such, news regarding TEUM, its target market, partners and/or competitors could lead to significant volatility in the stock price.
- **Competitive Markets** – The Company and its partners compete in its target mobile telecom services market with a number of companies, many of which are considerably larger than the Company. There

can be no assurance that the Company and its partners will be able to successfully compete and launch new products into these competitive markets in the future.

- **Regulatory risks** – TEUM and its partners are subject to regulatory review for its ongoing service and new market development activities, both in the US and internationally. Any negative correspondence from US or other regulatory agencies could have an adverse effect on the ongoing operations of the Company.
- **Lack of historic profitability** - TEUM has not achieved operating profitability on a quarterly basis for several years, and according to our forecasts may not be expected to do so in the near future. Although the Company maintains adequate cash reserves at the present time, there can be no assurance the Company will not need to raise additional working capital in the future should operating losses continue.
- **Need to defend patents and other intellectual property** – TEUM currently holds a number of US and International patents on its services and related technologies, some of which expire in the near future. The Company may be required to defend its patents in the US and overseas in the future, and there can be no assurance these defenses will be successful.

Robert M. Wasserman

Pareteum
Consolidated Statements of Operations and Comprehensive Loss
 (In 000s, except per share data)

FYE December	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
Revenues	\$47,361	\$44,359	\$43,651	\$37,168	\$32,233	\$29,202	\$19,452	\$20,356	\$31,015	\$12,856	\$13,134	\$15,300
Cost of service	45,609	43,336	41,453	35,121	28,723	23,003	9,389	6,682	5,926	3,659	3,680	4,130
Gross Profit	1,752	1,023	2,198	2,047	3,510	6,199	10,063	13,668	25,089	9,197	9,454	11,170
Operating Expenses:												
Product development						6,804	6,091	7,229	4,543	3,544	1,100	1,200
Sales and marketing						3,707	3,139	2,394	2,634	1,341	1,500	1,600
General and administrative						11,492	15,063	12,603	11,650	11,708	8,000	8,500
Depreciation and amortization						5,710	6,601	8,220	6,624	4,247	3,500	3,700
Total operating expenses	13,105	15,470	12,738	20,521	29,186	27,713	30,894	30,445	25,451	20,839	14,100	15,000
Income (loss) from operations	(11,353)	(14,447)	(10,540)	(18,474)	(25,676)	(21,514)	(20,832)	(16,777)	(362)	(11,642)	(4,646)	(3,830)
Other Income												
Interest income	101	42	161	240	107	248	104	128	106	112	200	200
Interest expense	(849)	(499)	(939)	(1,803)	(201)	(1,870)	(3,135)	(5,176)	(1,488)	(1,228)	(1,800)	(2,000)
Other expenses	1,470	(1,602)	(5,790)	(74,102)	(164)	704	(843)	(3,216)	(3,279)	(17,945)	(1,500)	(1,600)
Income (loss) before tax	(10,631)	(16,506)	(17,108)	(94,138)	(25,935)	(22,432)	(24,705)	(25,042)	(5,023)	(30,703)	(7,746)	(7,230)
Provision for income taxes	1	1	1	1	0	289	(200)	217	(17)	38	100	0
Net income (loss)	(10,631)	(16,507)	(17,109)	(94,139)	(25,935)	(22,721)	(24,505)	(25,259)	(5,006)	(30,741)	(7,846)	(7,230)
Basic income per share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.65)	(\$0.50)
Diluted income per share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.65)	(\$0.50)
Basic shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	12,000	14,500
Diluted shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	12,000	14,500
Key ratios:												
Revenue growth		-6.3%	-1.6%	-14.9%	-13.3%	-9.4%	-33.4%	4.7%	52.4%	-58.6%	2.2%	16.5%
Gross margin	3.7%	2.3%	5.0%	5.5%	10.9%	21.2%	51.7%	67.1%	80.9%	71.5%	72.0%	73.0%
SG & A/sales						52.0%	93.6%	73.7%	46.1%	101.5%	72.3%	66.0%
Depreciation, amort, non-cash comp						\$12,544	\$15,365	\$12,615	\$13,000	\$13,011	\$5,700	\$6,000
Operating margin	-24.0%	-32.6%	-24.1%	-49.7%	-79.7%	-73.7%	-107.1%	-82.4%	-1.2%	-90.6%	-35.4%	-25.0%
Cash Flow/share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$2.29)	(\$1.81)	(\$2.14)	\$1.26	(\$2.63)	(\$0.18)	(\$0.08)
EBITDA/share	(\$29.78)	(\$11.93)	(\$4.92)	(\$6.54)	(\$6.15)	(\$2.01)	(\$1.08)	(\$0.70)	\$2.00	\$0.20	\$0.09	\$0.15

Balance Sheets

(\$000s)

	12/31/16	6/30/17
Assets:		
Cash and equivalents	\$931	\$742
Restricted cash	564	700
Accounts receivables, net	615	249
Prepaid expenses & other current	1,085	681
Total current	3,195	2,372
Other long term assets	129	80
Note receivable	1,013	1,022
Property and equipment	8,709	7,736
Intangible assets, net	0	354
TOTAL ASSETS	13,045	11,563
Liabilities:		
Accounts payable	2,317	2,783
Current lease obligations	11	
Net billings in excess of revenues	952	563
Accrued expenses	6,014	4,968
Senior secured loan - short-term	4,000	1,750
Total current	13,293	10,063
Derivative liabilities	4,266	
Other long-term liabilities	193	177
Convertible note	821	75
Senior loan - long-term	3,716	5,039
Net billings - long-term	121	97
TOTAL LIABILITIES	22,410	15,452
Stockholders' equity	(9,365)	(3,889)
TOTAL LIAB & EQ	\$13,045	\$11,563

Quarterly Earnings Comparisons

	March	June	Sept	Dec	Total
Revenues (in \$Mill)					
2010	\$9,944	\$9,674	\$9,040	\$8,510	\$37,168
2011	8,508	7,791	7,797	8,137	32,233
2012	8,581	7,085	6,699	6,837	29,202
2013	6,240	3,564	4,124	5,524	19,452
2014	5,384	5,072	7,299	7,870	25,625
2015	5,013	19,244	3,486	3,272	31,015
2016	3,274	3,267	3,171	3,144	12,856
2017E	2,795	3,239	3,300	3,800	13,134
Earnings per Share					
2010	(\$0.17)	(\$0.18)	(\$0.25)	\$0.20	(\$33.30)
2011	0.04	0.01	(0.01)	0.00	(6.21)
2012	(0.05)	(0.04)	(0.05)	0.28	(5.19)
2013	(0.04)	(0.07)	(0.03)	(4.91)	(5.05)
2014	(0.04)	(0.04)	(0.04)	(0.03)	(3.70)
2015	(0.01)	0.06	(0.03)	(0.81)	(0.79)
2016	(0.66)	(0.43)	(0.08)	(3.50)	(\$4.67)
2017E	(0.14)	(0.10)	(0.20)	(0.21)	(\$0.65)

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:
 Updated – Buy – September 22, 2017 – Price Target \$2.10
 (from Price Target of \$2.25 or \$56.25 after 1-25 reverse split)

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	13	81%	3	23%
Market Perform (Neutral)	0	0%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Ratings Suspension*	3	19%	3	100%
Total	16	100%	6	38%
*Suspensions are ratings under review for possible change due to unusual market-moving news, and/or analyst departure/change				

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