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Pareteum (NYSE American/TEUM)
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BUY Q3 Results Strong, Backlog Booms
Pareteum provides mobility cloud platform and software solutions
Investment Highlights

1) Pareteum reported very solid results for their Q3/2017 quarter, including revenues of \$3.5 million, an increase of 10% year-over-year and 8% quarter-over-quarter. Net loss from operations for the quarter was (\$1.5) million, an improvement from an operating net loss of (\$8.8) million in the same period one year ago, while adjusted EBITDA was a positive \$600,000 this year, as compared to a negative \$6.9 million one year ago. While the Company did not comment specifically on revenue growth during the quarter, we believe growth came from increasing relationships with long-standing clients such as Vodafone in Europe and Zain in the Middle East, rather than from new contracts signed just recently, which are expected to begin to contribute later this year and next. Positive bottom line factors for Pareteum's Q3/17 results included higher gross margins at 77% versus 72% and a reduction in operating costs to \$5.0 million from \$12 million last year. At the end of the quarter the Company held approximately \$1.4 million in cash and restricted cash, which was augmented by a little over \$10.7 million in net proceeds received from a November equity offering.

2) Speaking of Pareteum's new contract backlog, the Company reported adding nearly \$21 million to its 36-month backlog figure in the month of October 2017 alone, boosting this amount to \$114 million altogether. Highlights of recent contract awards for Pareteum include a \$12 million contract in Sub-Saharan Africa for Mobile Virtual Network Operator (MVNO) and Internet of Things (IoT) connectivity; a \$2 million contract in the US for global connectivity serving the enterprise market; a \$3 million contract with a large Communications Platform as a Service (CPaaS) company for expansion into Latin America; and a \$3 million contract with an India-based travel SIM reseller. In addition, since the beginning of November, Pareteum has announced a 36-month, \$1 million in total contract revenues award with a digital brand management company for the delivery of subscriber messaging and marketing content, and a

Current Price \$0.75
Price Target \$2.10

Estimates	F2015A	F2016A	F2017E
Revenue(\$000s)	\$31,015	\$12,856	\$13,333 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	3,499 A
4Q December	3,272	3,144	3,800 E
EPS	(\$0.79)	(\$4.67)	(\$0.47) 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)	(0.16) A
4Q December	(0.81)	(3.50)	(0.07) E
P/E (x)	N/A	N/A	N/A
EBITDA/Share	\$2.00	\$0.20	\$0.14
EV/EBITDA (x)	0.4	4.3	6.3

Stock Data	
52-Week Range	\$0.50-\$3.99
Shares Outstanding (mil.)	37.3
Market Capitalization (mil.)	\$28.0
Enterprise Value (mil.)	\$32.7
Debt to Capital (9/17)	483.4%
Book Value/Share (9/17)	N/A
Price/Book	N/A
Average Trading Volume (3-month) Mill	2.3
Insider Ownership	24.2%
Institutional Ownership	10.2%
Short interest (mil.)	1.3
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.

\$8 million (over five years) contract extension for an Eastern European “Smart City” implementation, Finally, in October Pareteum entered into strategic alliance and teaming agreement with Artilium Plc, a leading Belgium-based publicly-traded (LSE/AIM:ARTA, Not Rated) Software and Communication Service Provider Company. The agreement included a mutual minority share exchange swap and the first joint transaction under



this new deal, a \$1 million 3-year contract for CPaaS services to a MVNO provider of cross-border services between China and North America, was recently announced. Pareteum has also received positive press lately relating to a recent partnership with AirFox (private), where AirFox’s AirToken mobile platform technology will be integrated and embedded with Pareteum’s Mobile Cloud Platform, with service revenue generated through users opting into advertisement and sponsored content to be collected by AirFox and paid to Pareteum.

3) We are increasing our revenue forecast for Pareteum going forward due to the higher-than-expected results from Q3/17. For 2017E, we are estimating that the Company will post revenues of \$13.3 million, representing a 4% increase over revenues from 2016 (which included some revenues from the divested ValidSoft business), with a net loss of \$7.2 million or (\$0.47) per share, as compared with a net loss of \$30.7 million or (\$4.67) per share in 2016. For 2018E, we are estimating that Pareteum will record \$16.0 million in revenues, for a 20% projected increased over 2017E, with a reduced net loss of \$6.0 million or (\$0.15) per share. Also benefitting results for next year are projected improved gross margins from economies of scale, also reflective of the improved margins evidenced in recent quarters. We have not yet forecast significant positive impacts from the recent slew of new contracts and increased project backlog at the Company, but we hope to do so next year after results for Q4/2017 are released and more information may be available on the progress of Pareteum’s new business.

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 both near-term and over the long run. Thus, we are maintaining our BUY rating on Pareteum and 12-18 month price target of \$2.10 per share. (For a more complete analysis of our stock valuation methodology on TEUM shares please refer to our Company Update on TEUM dated September 22, 2017).

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	\$13,333	\$16,000
Cost of service	45,609	43,336	41,453	35,121	28,723	23,003	9,389	6,689	5,926	3,659	3,470	3,920
Gross Profit	1,752	1,023	2,198	2,047	3,510	6,199	10,063	13,668	25,089	9,197	9,863	12,080
Operating Expenses:												
Product development						6,804	6,091	7,229	4,543	3,544	1,400	1,500
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	7,000	7,400
Depreciation and amortization						5,710	6,601	8,220	6,624	4,247	4,000	4,200
Total operating expenses	13,105	15,470	12,738	20,521	29,186	27,713	30,894	30,445	25,451	20,839	13,900	14,700
Income (loss) from operations	(11,353)	(14,447)	(10,540)	(18,474)	(25,676)	(21,514)	(20,832)	(16,777)	(362)	(11,642)	(4,037)	(2,620)
Other Income												
Interest income	101	42	161	240	107	248	104	128	106	112	200	400
Interest expense	(849)	(499)	(939)	(1,803)	(201)	(1,870)	(3,135)	(5,176)	(1,488)	(1,228)	(1,800)	(1,900)
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)	(7,137)	(5,720)
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)	(7,237)	(5,720)
Basic income per share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.47)	(\$0.15)
Diluted income per share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.47)	(\$0.15)
Basic shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	15,500	37,500
Diluted shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	15,500	37,500
Key ratios:												
Revenue growth		-6.3%	-1.6%	-14.9%	-13.3%	-9.4%	-33.4%	4.7%	52.4%	-58.6%	3.7%	20.0%
Gross margin	3.7%	2.3%	5.0%	5.5%	10.9%	21.2%	51.7%	67.1%	80.9%	71.5%	74.0%	75.5%
S G & A/sales						52.0%	93.6%	73.7%	46.1%	101.5%	63.8%	56.3%
Depreciation, amort, non-cash comp						\$12,544	\$15,365	\$12,615	\$13,000	\$13,011	\$6,200	\$6,500
Operating margin	-24.0%	-32.6%	-24.1%	-49.7%	-79.7%	-73.7%	-107.1%	-82.4%	-1.2%	-90.6%	-30.3%	-16.4%
Cash Flow/share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$2.29)	(\$1.81)	(\$2.14)	\$1.26	(\$2.63)	(\$0.07)	\$0.02
EBITDA/share	(\$29.78)	(\$11.93)	(\$4.92)	(\$6.54)	(\$6.15)	(\$2.01)	(\$1.08)	(\$0.70)	\$2.00	\$0.20	\$0.14	\$0.10

Balance Sheets

(\$000s)

Assets:	12/31/16	9/30/17
Cash and equivalents	\$931	\$700
Restricted cash	564	699
Accounts receivables, net	615	335
Prepaid expenses & other current	1,085	797
Total current	3,195	2,531
Other long term assets	129	80
Note receivable	1,013	594
Property and equipment	8,709	7,078
Intangible assets, net	0	0
TOTAL ASSETS	13,045	10,283
Liabilities:		
Accounts payable	2,317	2,591
Current lease obligations	11	
Net billings in excess of revenues	952	434
Accrued expenses	6,014	4,700
95 unsecured Sub Note		559
Senior secured loan - short-term	4,000	2,000
Total current	13,293	10,283
Derivative liabilities	4,266	471
Other long-term liabilities	193	166
Convertible note	821	89
Senior loan - long-term	3,716	4,151
Net billings - long-term	121	0
TOTAL LIABILITIES	22,410	15,161
Stockholders' equity	(9,365)	(4,878)
TOTAL LIAB & EQ	\$13,045	\$10,283

Quarterly Earnings Comparisons

(in \$Mill)

	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	3,499	3,800	13,333
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)	(0.16)	(0.07)	(\$0.47)

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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	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	13	87%	2	15%
Market Perform (Neutral)	2	0%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	15	100%	2	13%

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