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Pareteum (NYSE American/TEUM)

BUY Raising Estimates for 2018E, Price Target
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Pareteum provides mobility cloud platform and software solutions

Investment Highlights

1) Pareteum reported strong results for their Q4/2017 quarter and year as a whole, including revenues of \$4.0 million, an increase of 28% year-over-year and 15% quarter-over-quarter. Revenue growth in the fourth quarter was boosted by fulfillment of the Company's growing backlog, for example the number of connections (or customers) alone grew nearly 35% in Q4/17 to 1.7 million from 1.2 million at the start of the period. Although gross margins slipped to 72.5% in Q4/17 from 78.9% the prior year, the Company was able to reduce its net operating loss and increase its adjusted EBITDA to more than \$700,000 from \$110,000 in the prior year period. For the year, revenues grew 5% to \$13.5 million, led by the signing of 26 new contracts in 45 countries and increases in the mobile bundled services area. Higher revenues and improved gross margins also helped reduce Pareteum's net operating loss to \$8.8 million in 2017 from \$18.9 million in 2016, and turn around a negative Adjusted EBITDA of \$3.9 million to a net positive \$1.6 million in 2017. At the end of the year, Pareteum held \$13.5 million in cash, a marked improvement from the \$1.4 million in cash on hand at the start of Q4/17, and based on current quarterly positive adjusted EBITDA, a good measure of operating cash flow, adequate resources are on hand to fund expected growth for the near future.

2) Prospects for the Company also look solid for 2018 and beyond. Pareteum has announced that its 36-month backlog stood at \$147 million as of the beginning of this year, up from just \$50 million at the start of 2017, and has reached and even exceeded the \$200 million mark as of today, including a very recent \$3.1 million three-year contract just signed for global cloud services in South Asia. Pareteum has also been able to diversify significantly out of its heavy-European base, to reach every continent, boosted by new joint ventures such as those with Artilium (LSE/AIM:ARTA, Not Rated), NetNumber (Private) and Air Fox (Private). (See graphic below)

Current Price \$2.15
Price Target \$3.10

Estimates	F2015A	F2016A	F2017A
Revenue(\$000s)	\$31,015	\$12,856	\$13,548 A
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	4,015 A
EPS	(\$0.79)	(\$4.67)	(\$0.84) A
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)	(0.44) A
P/E (x)	N/A	N/A	N/A
EBITDA/Share	\$2.00	\$0.20	\$0.13
EV/EBITDA (x)	0.9	9.3	14.4

Stock Data	
52-Week Range	\$0.50-\$3.59
Shares Outstanding (mil.)	51.0
Market Capitalization (mil.)	\$109.7
Enterprise Value (mil.)	\$95.9
Debt to Capital (12/17)	4.2%
Book Value/Share (12/17)	\$0.30
Price/Book	7.1 X
Average Trading Volume (3-month) Mill	5.1
Insider Ownership	16.1%
Institutional Ownership	18.6%
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)

Update - BUY - April 4, 2018 - Target increased \$3.10



Source: Pareteum

3) The Company also recently provided financial guidance for 2018, including revenue growth of at least 50% over 2017, and targets of 70%-75% for gross margins and 15%-20% for net margins. We are therefore increasing our estimates for Pareteum for 2018E, including revenues of \$21.0 million, net loss of \$3.1 million or (\$0.06) per share, and positive adjusted EBITDA of \$0.14 per share, as compared to \$0.13 per share for the same metric in 2017, on more shares in 2018. Our estimates assume 75% gross margins and average shares outstanding of 51 million for the year. For Q1/2018E, which is expected to be announced sometime this month, we are estimating that Pareteum will report revenues of \$4.5 million, representing an increase of more than 60% year-over-year, and a reduced net loss of (\$0.03) per share. We also forecast that the Company will post increasing revenues and reduced net losses on a quarterly basis as 2018 goes by, possibly even leading to a quarterly net profit toward the end of this year.

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. These shares have recently met and exceeded our earlier price target of \$2.10, however, and based on increased revenues forecast for 2018E, we are maintaining our BUY rating on Pareteum while increasing our 12-18 month price target to \$3.10 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, including comparison with stocks such as GTT Communications (GTT, NR), Level 3 Communications (Acquisition by CenturyLink), Cogent Communications (CCOI, NR) and Lumos Networks (Acquisition by Private Equity).

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	2017	2018E
Revenues	\$47,361	\$44,359	\$43,651	\$37,168	\$32,233	\$29,202	\$19,452	\$20,356	\$31,015	\$12,856	\$13,548	\$21,000
Cost of service	45,609	43,336	41,453	35,121	28,723	23,003	9,389	6,689	5,926	3,639	3,684	5,250
Gross Profit	1,752	1,023	2,198	2,047	3,510	6,199	10,063	13,668	25,089	9,197	9,864	15,750
Operating Expenses:												
Product development						6,804	6,091	7,229	4,543	3,544	1,480	1,580
Sales and marketing						3,707	3,139	2,394	2,634	1,341	1,575	1,675
General and administrative						11,492	15,063	12,603	11,650	11,708	10,097	10,000
Depreciation and amortization						5,710	6,601	8,220	6,624	4,247	4,533	4,500
Total operating expenses	13,105	15,470	12,738	20,521	29,186	27,713	30,894	30,445	25,451	20,839	17,685	17,755
Income (loss) from operations	(11,353)	(14,447)	(10,540)	(18,474)	(25,676)	(21,514)	(20,832)	(16,777)	(362)	(11,642)	(7,821)	(2,005)
Other Income												
Interest income	101	42	161	240	107	248	104	128	106	112	172	400
Interest expense	(849)	(499)	(939)	(1,803)	(201)	(1,870)	(3,135)	(5,176)	(1,488)	(1,228)	(5,063)	(1,000)
Other expenses	1,470	(1,602)	(5,790)	(74,102)	(164)	704	(843)	(3,216)	(3,279)	(17,945)	(864)	(500)
Income (loss) before tax	(10,631)	(16,506)	(17,108)	(94,138)	(25,935)	(22,432)	(24,705)	(25,042)	(5,023)	(30,703)	(13,576)	(3,105)
Provision for income taxes	1	1	1	1	0	289	(200)	217	(17)	38	107	0
Net income (loss)	(10,631)	(16,507)	(17,109)	(94,139)	(25,935)	(22,721)	(24,505)	(25,259)	(5,006)	(30,741)	(13,683)	(3,105)
Basic income per share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.84)	(\$0.06)
Diluted income per share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.84)	(\$0.06)
Basic shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	16,338	51,000
Diluted shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	16,338	51,000
Key ratios:												
Revenue growth		-6.3%	-1.6%	-14.9%	-13.3%	-9.4%	-33.4%	4.7%	52.4%	-58.6%	5.4%	55.0%
Gross margin	3.7%	2.3%	5.0%	5.5%	10.9%	21.2%	51.7%	67.1%	80.9%	71.5%	72.8%	75.0%
S G & A/sales						52.0%	93.6%	73.7%	46.1%	101.5%	86.2%	55.6%
Depreciation, amort, non-cash comp						\$12,544	\$15,365	\$12,615	\$13,000	\$13,011	\$9,951	\$9,000
Operating margin	-24.0%	-32.6%	-24.1%	-49.7%	-79.7%	-73.7%	-107.1%	-82.4%	-1.2%	-90.6%	-57.7%	-9.5%
Cash Flow/share	(\$27.89)	(\$13.64)	(\$7.99)	(\$33.30)	(\$6.21)	(\$2.29)	(\$1.81)	(\$2.14)	\$1.26	(\$2.63)	(\$0.23)	\$0.12
EBITDA/share	(\$29.78)	(\$11.93)	(\$4.92)	(\$6.54)	(\$6.15)	(\$2.01)	(\$1.08)	(\$0.70)	\$2.00	\$0.20	\$0.13	\$0.14

Balance Sheets

(\$000s)

Assets:	12/31/16	12/31/17
Cash and equivalents	\$931	\$13,538
Restricted cash	564	200
Accounts receivables, net	615	2,058
Prepaid expenses & other current	1,085	900
Total current	3,195	16,696
Other long term assets	129	91
Note receivable	1,013	595
Property and equipment	8,709	4,714
Long-term Investments	0	3,230
TOTAL ASSETS	\$13,045	\$25,326

Quarterly Earnings Comparisons

Revenues (in \$Mill)

	March	June	Sept	Dec	Total
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
2017	2,795	3,239	3,499	4,015	13,548
2018E	4,500	5,000	5,500	6,000	21,000

Earnings per Share

	2010	2011	2012	2013	2014	2015	2016	2017	2018E
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)				
2017	(0.14)	(0.10)	(0.16)	(0.44)	(0.84)				
2018E	(0.03)	(0.02)	(0.02)	0.01	(0.06)				

Liabilities:	12/31/16	12/31/17
Accounts payable	\$2,317	\$1,979
Current lease obligations	11	0
Net billings in excess of revenues	952	243
Accrued expenses	6,014	5,250
9% unsecured Sub Note	0	66
Senior secured loan - short-term	4,000	0
Total current	13,293	7,538
Derivative liabilities	4,266	1,598
Other long-term liabilities	193	151
Convertible note	821	618
Senior loan - long-term	3,716	0
Net billings - long-term	121	0
TOTAL LIABILITIES	22,410	9,905
Stockholders' equity	(9,365)	15,422
TOTAL LIAB & EQ	\$13,045	\$25,326

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)
Update – BUY – April 4, 2018 – Price Target increased to \$3.10

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Market Outperform (Buy)	16	89%	6	38%
Market Perform (Neutral)	2	11%	0	0%
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Total	18	100%	6	33%

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