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Pareteum (NYSE American/TEUM)

BUY Raising Estimates for 2018E, Maintain Buy
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Pareteum provides mobility cloud platform and software solutions

Investment Highlights

1) Pareteum reported excellent results for their Q1/2018 quarter, including revenues of \$4.1 million, an increase of 47% year-over-year. Revenue growth in the first quarter was led by a 94% increase in connections (or devices) over Q1/2017 to 2.2 million, as Pareteum was able to convert its significant backlog at a 103% rate. Pareteum has been able so far this year to diversify its revenue stream from its core Managed Services Platform to include contributions from newer service offerings such as Application Exchange Platform and Global Cloud Services, which represented nearly 12% of overall revenues this quarter. The Company was also able to sign 14 new contract awards in Q1, to help bring its 36-month revenue backlog above the \$200 million level, up from \$147 million at the start of the year. Gross margins improved slightly in the quarter, to 71% from 70% in the prior year period, and combined with lower costs in certain areas (including general and administrative and restructuring charges), Pareteum was able to reduce its loss from operations in Q1/2018 and post positive operating cash flow and adjusted EBITDA. At the end of the quarter the Company had \$15.8 million in cash on hand, up from \$13.5 million at the start of the year, an amount which was boosted by the proceeds of a \$6.1 million equity offering completed earlier this month.

2) Company management also increased financial guidance for 2018 as a whole, based on the first quarter results, to revenue growth of at least 60% year-over-year, up from 50%. Thus, we are increasing our revenue projections for Pareteum for 2018E from \$21.0 million (or 55% above actual 2017 revenues of \$13.5 million) to \$21.7 million, representing a 60% year-over-year increase. The Company also guided to continued positive EBITDA and operating cash flow for 2018E, including gross margins of between 70%-75% for the year, and with these metrics in mind we are estimating that the Company will post a net loss of \$3.3 million this year, or (\$0.06) per share, based on gross margins of 73% and average shares outstanding

Current Price \$2.41
Price Target \$3.10

Estimates	F2016A	F2017A	F2018E
Revenue(\$000s)	\$12,856	\$13,548	\$21,700 E
1Q March	3,274	2,795	4,113 A
2Q June	3,267	3,239	4,700 E
3Q September	3,171	3,499	5,700 E
4Q December	3,144	4,015	7,187 E
EPS	(\$4.67)	(\$0.84)	(\$0.06) E
1Q March	(0.66)	(0.14)	(0.04) A
2Q June	(0.43)	(0.10)	(0.02) E
3Q September	(0.08)	(0.16)	(0.02) E
4Q December	(3.50)	(0.44)	0.02 E
P/E (x)	N/A	N/A	N/A
EBITDA/Share	\$0.20	\$0.13	\$0.12
EV/EBITDA (x)	10.4	16.2	18.1 X

Stock Data	
52-Week Range	\$0.50-\$3.59
Shares Outstanding (mil.)	54.0
Market Capitalization (mil.)	\$130.1
Enterprise Value (mil.)	\$114.2
Debt to Capital (3/18)	4.1%
Book Value/Share (3/18)	\$0.31
Price/Book	7.7 X
Average Trading Volume (3-month) Mill	2.2
Insider Ownership	13.4%
Institutional Ownership	16.0%
Short interest (mil.)	1.3
Dividend / Yield	\$0.00/0.0%

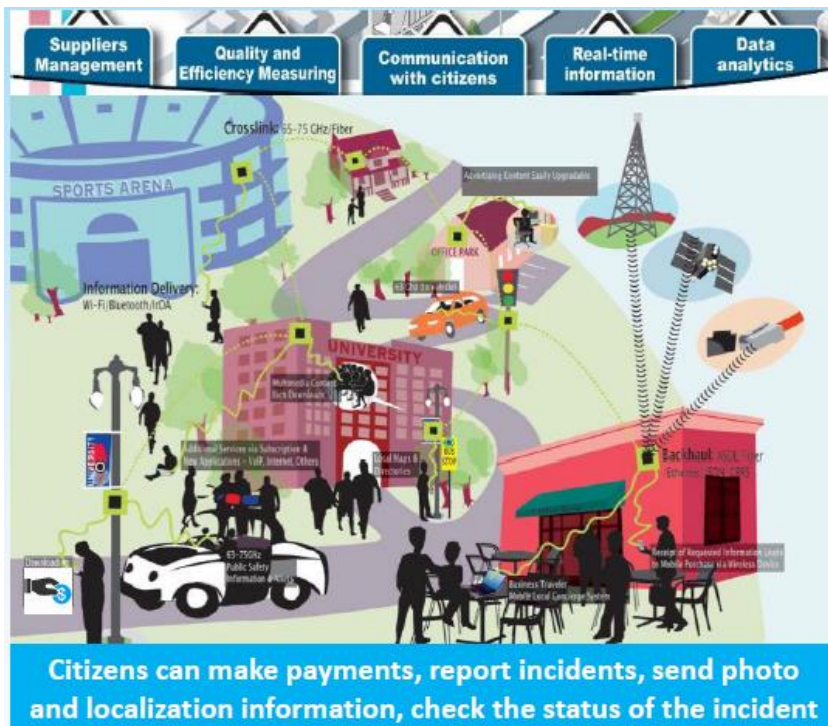


Price target and ratings changes over the past 3 years:
 Update - September 22, 2017 - Buy - Target \$2.10
 (from Target of \$2.25 or \$56.25 after 1-25 reverse split)
 Update - BUY - April 4, 2018 - Target increased \$3.10

Please find Important Disclosures beginning on Page 6.

of 54 million. However, due to a large amount of non-cash expenses expected for this year this net loss would equate to adjusted EBITDA of a positive \$0.12 per share, and positive operating cash flow of between \$5 million and \$6 million before capital expenditures or required license fees. Revenues for this year are also expected to reflect a greater diversification of sources, including a reduced reliance on the Company's top two clients and higher sales outside of Europe, continuing a trend started in calendar 2017.

2) Concurrent with the financial report issued for the most recent first quarter, Pareteum also published a new slide show presentation which provided additional insights into the Company's rapid growth and new business development. One highlight graphically depicted in the presentation was the concept of a "Smart City" (shown below), in this example using a case study of an Eastern European capital:



Source: Pareteum

The informative slide presentation describes that how connected "Things" such as cars, goods, and people move among networks (for example 4G, Wi-Fi, and Narrow-Band IoT) the following components are needed:

- Seamless & Ubiquitous Access;
- Payments Systems;
- Cryptocurrencies & Blockchain;
- Security & Identification Services;
- City & Citizen Services;
- Purchasing/payments/settlements/ commerce;
- Scalable Platform Services;
- Artificial Intelligence;
- Machine Learning;
- Predictive analytics or "insights";
- Cloud Connectivity; and
- A Monetized Transaction Exchange.

The flexibility of Pareteum's Mobile Platform Service makes all of the above possible, and thus "the Internet of Things" can exist and flourish. A more detailed description of the Smart City concept and how Pareteum's Global Cloud Service Platform product offerings make this possible can be found in a recent Whitepaper entitled: "Smart Cities: The Path to Connected Living" published by the Company in March 2018.

Conclusion/Stock Valuation

With a new, experienced management team, growing revenues and increased 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. Therefore, we are maintaining our BUY rating on Pareteum and our 12-18 month price target of \$3.10 per share. (For a more complete analysis of our stock valuation methodology on TEUM shares please refer to our Company Updates on TEUM dated September 22, 2017 and April 4, 2018, 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	\$21,700
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	5,860
Gross Profit	1,752	1,023	2,198	2,047	3,510	6,199	10,063	13,668	25,089	9,197	9,864	15,840
Operating Expenses:												
Product development						6,804	6,091	7,229	4,543	3,544	1,480	2,500
Sales and marketing						3,707	3,139	2,394	2,634	1,341	1,575	2,750
General and administrative						11,492	15,063	12,603	11,650	11,708	10,097	9,500
Depreciation and amortization						5,710	6,601	8,220	6,624	4,247	4,533	3,800
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	18,550
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)	(2,710)
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)	(500)
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)	(3,310)
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)	(3,310)
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	54,000
Diluted shares outstanding	381	1,211	2,142	2,827	4,173	4,453	5,050	5,908	6,328	6,739	16,338	54,000
Key ratios:												
Revenue growth		-6.3%	-1.6%	-14.9%	-13.3%	-9.4%	-33.4%	4.7%	52.4%	-58.6%	5.4%	60.2%
Gross margin	3.7%	2.3%	5.0%	5.5%	10.9%	21.2%	51.7%	67.1%	80.9%	71.5%	72.8%	73.0%
S G & A/sales						52.0%	93.6%	73.7%	46.1%	101.5%	86.2%	56.5%
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%	-12.5%
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)	\$0.11
EBITDA/share	(\$29.78)	(\$11.93)	(\$4.92)	(\$6.54)	(\$6.15)	(\$2.01)	(\$1.08)	(\$0.70)	\$2.00	\$0.20	\$0.13	\$0.12

Balance Sheets

(\$000s)

	12/31/17	3/31/18
Assets:		
Cash and equivalents	\$13,538	\$15,759
Restricted cash	200	230
Accounts receivables, net	2,058	1,954
Prepaid expenses & other current	900	1,154
Total current	16,696	19,097
Other long term assets	91	94
Note receivable	595	602
Property and equipment	4,714	4,176
Long-term Investments	3,230	3,230
TOTAL ASSETS	\$25,326	\$27,199

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	4,113	4,700	5,700	7,187	21,700

Earnings per Share

	2010	2011	2012	2013	2014	2015	2016	2017	2018E
Liabilities:									
Accounts payable	\$1,979	\$2,286	0.04	0.01	(0.01)	0.00	(6.21)		
Current lease obligations	0	0	(0.05)	(0.04)	(0.05)	0.28	(5.19)		
Net billings in excess of revenues	243	316	(0.04)	(0.07)	(0.03)	(4.91)	(5.05)		
Accrued expenses	5,250	4,841	(0.04)	(0.04)	(0.04)	(0.03)	(3.70)		
9% unsecured Sub Note	66	119	(0.01)	0.06	(0.03)	(0.81)	(0.79)		
Senior secured loan - short-term	0	0	(0.66)	(0.43)	(0.08)	(3.50)	(4.67)		
Total current	7,538	7,562	(0.14)	(0.10)	(0.16)	(0.44)	(0.84)		
Derivative liabilities	1,598	1,911	(0.04)	(0.02)	(0.02)	0.02	(0.06)		
Other long-term liabilities	151	137							
Convertible note	618	601							
Senior loan - long-term	0	0							
Net billings - long-term	0	0							
TOTAL LIABILITIES	9,905	10,212							
Stockholders' equity	15,422	16,987							
TOTAL LIAB & EQ	\$25,326	\$27,199							

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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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	16	84%	6	38%
Market Perform (Neutral)	3	16%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	19	100%	6	32%

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