

June 12, 2018

## Pareteum (NYSE American/TEUM)

**BUY**
**Artilium to join the fold this Fall**
**Robert M. Wasserman**

Senior Research Analyst

561-208-2905

rwasserman@dawsonjames.com

*Pareteum provides mobility cloud platform and software solutions*

### Investment Highlights

1) Pareteum announced last week an agreement to purchase London-based Artium (LSE:ARTA) for total consideration of \$105 million, including just under \$9 million in cash. The two companies had previously initiated a joint development agreement last October which included ownership in both firms by the other in the range of 7%-8%. The agreement has already been approved by both company's boards but must await additional shareholder votes, with estimated timing for closing the deal by September 2018. The combined companies are estimated to post revenues of \$49 million this year (up from about \$37 million in 2017) with a total combined market capitalization expected to be in the range of \$250 million. The combined companies will also add Bart Weijermars, current Artium CEO, as a new Chief Executive Officer for Pareteum Europe.

2) Since the October 2017 initial collaboration agreement, the Pareteum/Artium venture has gotten off to a fast start, highlighted by seven sales wins garnered already, representing over \$68 million in 36-month contract revenue, with another 11 sales awards pending - which could add almost \$40 million more in revenues. For 2019E, the first full year expected for the combined companies, Pareteum management has guided that Artium will be "significantly accretive" based on non-GAAP earnings per share, adding to TEUM's momentum related to this financial metric. Pareteum is looking toward accelerating revenue growth for Artium, reduced expenses such as carrier fees and cloud costs, as well as the elimination of certain duplicative expenses to provide for the bottom line boost forecast for 2019E. With little Artium debt to repay and only modest cash outlays required for Artium shareholders to close the transaction, the combined companies stand to be in solid financial position once the deal is closed.

**Current Price \$2.60**
**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)	11.3	17.7	19.8 X

Stock Data	
52-Week Range	\$0.50-\$3.59
Shares Outstanding (mil.)	54.0
Market Capitalization (mil.)	\$140.4
Enterprise Value (mil.)	\$124.4
Debt to Capital (3/18)	4.1%
Book Value/Share (3/18)	\$0.31
Price/Book	8.3 X
Average Trading Volume (3-month) Mill	1.9
Insider Ownership	13.2%
Institutional Ownership	16.3%
Short interest (mil.)	6.5
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

**3) We will adjust our estimates for Pareteum to reflect the Artilium combination later this fall once the combination is complete,** and at which time more might be known about what the two company's financials might look like going forward. Meanwhile, the Company is making solid progress both related to increasing sales (outside of the Artilium collaboration) and adding shareholder value, including the recent signing of a new \$6 million, 3-year contract for Managed Service Platform services in the US and Caribbean markets, and also **through gaining membership in the Russell Microcap Index, expected to be effective June 25<sup>th</sup>.**

## 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
<b>Assets:</b>		
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
<b>TOTAL ASSETS</b>	<b>\$25,326</b>	<b>\$27,199</b>

**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

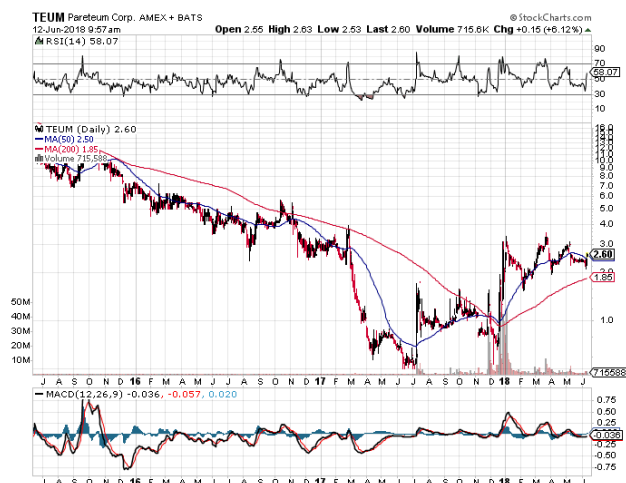
**Earnings per Share**

	2010	2011	2012	2013	2014	2015	2016	2017	2018E
<b>Liabilities:</b>									
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							
<b>TOTAL LIABILITIES</b>	<b>9,905</b>	<b>10,212</b>							
Stockholders' equity	15,422	16,987							
<b>TOTAL LIAB &amp; EQ</b>	<b>\$25,326</b>	<b>\$27,199</b>							

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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- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	<b># of Companies</b>	<b>% of Total</b>	<b># of Companies</b>	<b>% of Totals</b>
Market Outperform (Buy)	19	86%	6	32%
Market Perform (Neutral)	3	14%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>22</b>	<b>100%</b>	<b>6</b>	<b>27%</b>

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