

Payment Data Systems (NASDAQ/PYDS)**BUY \$1.65 Price Target: \$5.00***October 23, 2018**Barry M. Sine*

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Payment Data Systems is an electronic payment solutions company offering ACH, credit card, debit card, prepaid card and electronic billing services.

Replacing Cash With Electronic Payments

- We initiate coverage of Payment Data Systems (PDS) with a Buy rating and a \$5.00 price target.
- PDS processes multiple types of electronic payments including credit card, debit card, prepaid card and automated clearing house or ACH.
- It is also a prepaid card program manager, managing programs for other brands and has its own prepaid card brand, Akimbo.
- Akimbo is branching into the electronic gift and promotional card business allowing companies to send electronic prepaid cards via email or text.
- It dramatically expanded its credit card processing business last year with the acquisition of Singular Payments for \$5 mm.
- With Singular, it can now target large industry groups of merchants en masse as it embeds its application programming interface (API) software into the software of integrated software vendors (ISVs) whose specialized software manages the business of companies such as law firms, medical practices and food trucks.
- Its FiCentive prepaid card manager program offers innovative virtual card solutions, including its own Akimbo brand card.
- PDS is growing rapidly, due largely to the Singular acquisition last year with revenue up 146% YoY in the most recent quarter and 7.5% sequentially, suggesting strong organic growth.
- While ACH transactions declined last year as a large customer sold its customer base, ACH is back to growth with 17% YoY transaction growth in 2Q.
- PDS benefits from a global trend towards greater use of electronic payments in many forms. Instead of *just* the 3 billion credit cards now in use, consumers can increasingly pay with cell phones, and even their fingerprint or face. Acceptance of electronic payments is growing as well as even the smallest merchants, like the food truck operator, now accept electronic payments.
- We forecast 5% sequential revenue growth in coming quarters leading to 76% (acquisition driven) revenue growth this year and 22% next year.
- As PDS scales, we expect it to turn EBITDA positive next year.
- Our valuation assumes a 2.0x multiple of 2020E revenue or about half the valuation of comps.
- We view the next few years as critical to building its customer base and expect that at some point this base will attract an acquirer.

Please find Important Disclosures beginning on Page 11.


Payment Data Systems, Inc.

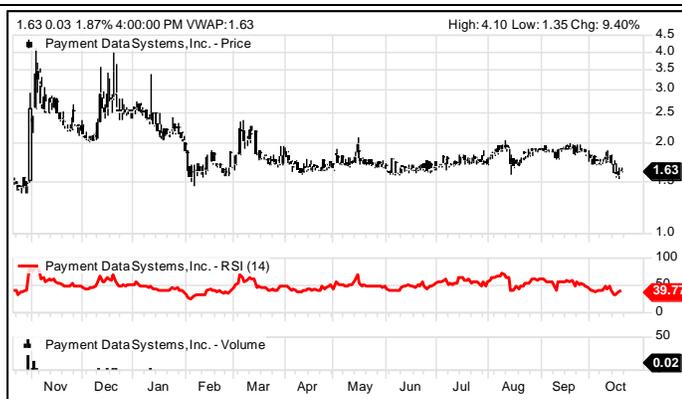
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Rating	BUY	Earnings Per Share				
Target Price	\$5.00	Normalized to exclude unusual items				
Ticker Symbol	PYDS	FYE - December	2017	2018E	2019E	2020E
Market	NASDAQ	1Q - March	(\$0.03)	(\$0.09) A	(\$0.07)	(\$0.02)
Stock Price	\$1.65	2Q - June	(\$0.06)	(\$0.09) A	(\$0.05)	(\$0.01)
52 wk High	\$4.10	3Q - September	(\$0.10)	(\$0.08)	(\$0.04)	(\$0.00)
52 wk Low	\$1.35	4Q - December	(\$0.13)	(\$0.08)	(\$0.03)	\$0.01
Shares Outstanding:	16.0 M	Year	(\$0.33)	(\$0.33)	(\$0.19)	(\$0.04)
Public Market Float:	7.6 M	Revenue (\$mm)	\$14.6	\$25.7	\$31.4	\$38.1
Avg. Daily Volume	39,429	EV/Rev	1.6X	0.9X	0.8X	0.6X
Market Capitalization:	\$26 M	EBITDA (\$mm)	(\$0.6)	(\$1.0)	\$0.6	\$2.5
Institutional Holdings:	1.9%	EV/EBITDA	NM	NM	40.7X	9.5X
Dividend Yield:	0.0%					

Senior Executives		Common Ownership Profile		
		Shareholder	Shares ('000)	% of Total
Michael Long	Co-Founder, Chairman	The Vanguard Group, Inc.	152.4	1.0%
Louis Hoch	Co-Founder, CEO and COO	Essex Investment Management Co. LLC	121.3	0.8%
Vaden Landers	EVP and Chief Revenue Officer	Citadel Advisors LLC	13.5	0.1%
Tom Jewell	SVP and Chief Financial Officer	Investors Asset Management of Georgia	10.0	0.1%
Ken Keller	SVP and Chief Tech. Officer	UBS Securities LLC	2.8	0.0%
Larry Morrison	SVP - Business Development	Directors and Officers	2,519	15.7%

Capitalization			
Market Value Basis ('000)		10/19/2018	%
Long-Term Debt	\$0		0.0%
Market Value of Equity	26,395		111.5%
Less: cash	-2,722		-11.5%
Enterprise Value	\$23,673		100.0%
Book Value Basis ('000)		06/30/2018	%
Long-Term Debt	\$0		0.0%
Other Liabilities	56,130		83.9%
Book Value of Equity	10,759		16.1%
Total Capital	\$66,889		100.0%



Source: Company reports, Metastock and Dawson James estimates.

Payments Go Electronic - Cash is Trash

We initiate coverage of Payment Data Systems (PDS) with a Buy rating and a \$5 price target. The company is in rapid growth mode as recent acquisitions and its organic growth strategy come together. PDS provides payment processing services, both ACH (automated clearing house) to and from bank accounts and credit and debit card payments. While ACH revenue is larger than card processing today, card processing is growing much faster. The company is focusing on embedding its API in software applications from the tens of thousands of integrated software vendors (ISVs) that provide software to enable other companies to run their business. An example would be a full-service dental practice software solution, which has PDS's API embedded in to allow the dental practices to accept credit cards. One of the company's key competitive advantages is the ease of onboarding large numbers of a businesses' end clients. The software suite provider just sends PDS a file with 16 key data items, and it sets them up in the vendor's software application.

Our \$5 price target a year out values the company at 2.0x 2020E revenue. This compares to 4.8x for comps. Most of the comps in the payment processing sector are larger, more established and more financially stable, implying a valuation discount for PDS. However, none have the recent growth history or, in our opinion, growth potential or takeover potential, so this would imply a valuation premium.

The company still relies on a relatively small base of customers and relationships with larger banks so the loss of any of these could harm its business model. We also cite cyber threats as a potential risk factor. PDS and other financial intermediaries are obvious targets of hackers. We have no way to externally assess the company's cyber protections. While PDS is just a processor, and hacking into its systems may not give hackers direct access to money, we note that crypto currency hackers have stolen bitcoin and other crypto currencies by hacking into cell phone accounts, so indirect threats are possible.

The company was founded as Billserv by the present management team in 1998 as a bill payment processing platform. They sold this business to CyberStarts for \$4.8 mm but kept the shell corporation. They then renamed it to the present Payment Data Systems and began organically building again this time focusing on ACH, credit/debit and prepaid card transactions. The company has completed two acquisitions to accelerate growth.

In December 2013, they acquired prepaid card issuer Akimbo for \$3 mm. Akimbo is a prepaid card brand giving PDS's FiCentive prepaid card unit its own card alongside those of its customers. The way the merger worked is that FiCentive operated the back-end prepaid card processing infrastructure. Akimbo is a prepaid card program manager and brought technology and personnel to address the front end including key technology for reloadable cards and mobile applications.

In September 2017 it acquired Singular Payments for \$5 mm. Singular was a merchant services provider. It brought a customer base of 1,200 customers, primarily in the health care industry. Due to this focus, the company was headquartered in Nashville, where PDS still maintains a presence. At the time of the acquisition, Singular was processing around \$500 mm in credit card transactions annually generating \$10 mm in revenue.

It presently targets four key industries where there are numerous business management software solutions, and where there is a need for electronic payments. These industries include:

- Healthcare

- Property management
- Utilities
- Insurance

The U.S. is Becoming a Cashless Society

PDS serves an enormous and growing market. The Federal Reserve publishes a comprehensive report on electronic payments every three years, with the most recent data available for 2015. In all, they reported 271 billion transactions with a total value of \$329 trillion. By contrast PYDS process less than \$3 billion annually giving it a miniscule market share and ample room for growth.

Electronic Payments is a \$329 Trillion Market Growing at 6%

Federal Reserve Payments Study Data - 2015

# of non-cash payments	144.1 billion	5% annual growth
Dollar amount of transactions	\$178 trillion	3% annual growth
Average transaction value	\$1,235	
Debit card transactions	69.5 billion	7% annual growth
Dollar amount of transactions	\$3 trillion	
Average transaction value	\$37	
Credit card transactions	33.8 billion	8% annual growth
Dollar amount of transactions	\$3 trillion	
Average transaction value	\$93	
ACH transactions	23.5 billion	5% annual growth
Dollar amount of transactions	\$145 trillion	
Average transaction value	\$6,183	
Total electronic transactions	270.9 billion	6% annual growth
Dollar amount of transactions	\$329 trillion	
Average transaction value	\$1,215	

Source: Federal Reserve

Management notes that the growth potential of electronic payments is enormous. Today, there are roughly 3 bn credit cards globally accepted at 44 mm merchant locations. Already, we are seeing an explosion in the ways payments can be originated including cell phones, watches, finger prints and facial recognition, so the number of ways to pay could increase tenfold to over 30 bn. We are also seeing an explosion in areas where electronic payments are accepted ranging from parking meters to buses to food trucks. PDS's software enables both the payment device and the merchant accepting the payments.

All in the Family – PDS Offers a Brand for Most Electronic Payments

For a relatively small company, PDS has a relatively large number of brand names – five that we believe investors should be familiar with.

PDS Family of Brand Names

ACH Payments



Payment Data Systems
www.paymentdata.com
 ACH Processing

Credit, Debit and Prepaid Cards



Singular Payments
www.singularpayments.com
 Credit card processing
 Program management



Payfac in a box
 Software APIs integrated into
 business software



FiCentive
www.ficentive.com
 Prepaid card processor and program manager



Akimbo
www.akimbocard.com
 Prepaid card provider
 Electronic gift card programs

Source: Company reports

ACH Processing – This business operates under the parent Payment Data Systems brand. In ACH, the company receives a per transaction “click fee” regardless of the amount of the transaction ranging from around 15¢ to 95¢ depending on the perceived risk level of the transaction. It also charges a fee for payments that are returned for insufficient funds. The company strikes a fine balance on return items since the fee revenue is very attractive, but they do present a financial risk, so it strives to maintain a ratio of no more than 15% bad checks per merchant.

In late 2017 PDS became only the second ACH operator to become certified by NACHA, which is the non-profit association representing 11,000 financial institutions. The other is TeleCheck. This certification gives it enormous credibility, and should at the margin help win new business, given NACHA’s prominence. Also, in 2017, PDS began offering same day ACH payments. This is an important feature demanded by many customers so this enhancement too should improve PDS’s win rate.

The ACH process is a four-step process with the ACH operator, in this case PDS, as the intermediary.

1. Originator – business initiates request for payment to customer or customer initiates request to pay a business.
2. Bank of originating business or consumer receives request and sends to ACH operator.
3. PDS receives, sorts and sends payments between originating and receiving institution.
4. Receiving bank receives request from PDS and deposits funds

In the event that the company is unable to charge back the merchant, it is liable to the bank for the amount of returned items so it does need to carefully monitor its customer base for signs of financial distress. In the June quarter, electronic transactions were up 17.0% and returned check transactions were up 30.0%. These increases came after a year of declines as a large customer sold off some its accounts a year ago. Now that this sale has anniversaried, we are back to growth. While the company reports transaction growth, we believe that this growth is also a good proxy for revenue growth, assuming that average fees are relatively stable.

Since PDS is not a bank, it needs to work with an originating depository financial institution or ODFI. It works with five ODFIs:

- Fifth Third Bank
- Generations Federal Credit Union
- North American Banking Company
- Evolve Bank and Trust
- Metropolitan Commercial Bank

The **credit card payment processing** business operates under the FiCentive brand with PayFac in a box a product brand. PayFac is short for payment facilitator. Credit card processing is especially lucrative as PDS receives a percentage of the transaction dollar volume it is processing. In the most recent quarter, credit card transactions increased by 415%, driven by the September 2017 Singular acquisition while the total dollar amount of transactions was up 291%. This implies that the average transaction was smaller, however in 1Q the two growth rates were nearly identical.

Similar to the ACH business, PDS must be sponsored by a bank that is a member of the major credit card associations, Visa, MasterCard, American Express and Discover. Under these arrangements, PDS is referred to as a third-party servicer (TPS), merchant service provider (MSP) or independent sales organization. It has two such sponsorship arrangements:

- Wells Fargo
- Central Bank of St. Louis

FiCentive is the brand name for the **prepaid card solutions** business. It acts as a processor and program manager. FiCentive is innovating in electronic gift, incentive, reward and rebate “cards” targeting large consumer product companies. We use the word card in quotes because there is no actual card involved. Instead, companies can text the information to a consumer and they can add it to their phone using either Apple Pay or

Google Wallet. It is the first prepaid card program manager to be compatible with all three electronic payment systems: Apple Pay, Google Wallet and Samsung Pay.

PDS has sponsorship agreements with two banks for prepaid cards:

- Sunrise Banks, N.A.
- Metropolitan Commercial Bank

Sample prepaid clients:

- Operation Homefront
- Pfizer
- Merck
- Lilly
- Medtronic
- University Fancard

Operation Homefront and University Fancard are particularly interesting applications. Operation Homefront is a charitable organization for down on their luck military veterans and their families. When a financial crisis occurs, say a military spouse does not have enough money to buy the kids food and diapers, she calls her Operation Homefront caseworker. The caseworker can then remotely load money into mom's card and she can immediately access it.

University Fancards bills itself as "the official prepaid card of college sports". Its customer base is 20 universities presently and 15,000 retailers. FiCente provides the program management, processing, and development of web and mobile apps. So if you're a Texas Longhorn or Florida Gator alum and you see an offer for a prepaid card from the university, PDS is the technology behind it.

Akimbo is FiCente's own pre-loadable prepaid card brand. The company acquired Akimbo in 2014 to boost this business and has recently announced some large customer wins. If you see PDS management present at an investor conference, they will often offer free \$10 Akimbo prepaid cards. We tried this at The Microcap Conference recently in New York, and it works. PDS will be offering this again to investors attending the Dawson James Small Cap Growth Conference next week in Jupiter, Florida.

Built for Scale

The secret to Payment Data's success is its leveraged business model. Instead of knocking on the doors of millions of cab drivers or dentists, it is now bringing these customers on indirectly in bulk by embedding its software into software produced by integrated software vendors or ISVs. As a payment facilitator, or payfac, it simplifies the process for approving merchants to accept credit card payments. Under PDS's model, the merchant account is PDS and it creates sub accounts with the individual merchants. By integrating into the software businesses, already use, PDS can make the process of accepting credit cards easy. We see further significant growth potential in verticals like the legal, accounting and food truck industries. With PDS's model, the intermediary IVR software vendor brings it customers in bulk, greatly accelerating its growth.

A great example of an integrated software vendor customer is a company called PracticeSuite. It is an all-in-one, cloud-based medical office software platform serving

about 10,000 medical practices. PDS's API is embedded in the PracticeSuite software to allow medical practices to easily accept all types of payments. The alternative would be to have a separate credit card terminal or sending paper bills to patients and waiting weeks for payments that in some cases never arrive. PracticeSuite's motto is "practice profitably". With changes in health insurance over the last decade, patient out-of-pocket responsibilities have skyrocketed. By offering patients multiple, convenient ways to pay, PracticeSuite can significantly reduce patient accounts receivable and improve a practice's cash flow. This also reduces the need to go to collections which can be expensive, inefficient and harmful to the relationship with the patient.

As Revenue Ramps – EBITDA Should Follow

The financial model is fairly straightforward as is the company's reporting methodology. Revenue came in at \$6.2 mm in the June quarter. This was up 146% due to the acquisition last September but since then 1Q and 2Q have come in with 4.0% and 7.5% sequential revenue growth showing strong organic growth. We model 5.0% sequential growth for the next two quarters, getting to \$25.7 mm for the full year. Management has said they expect that full year revenue will exceed \$24 mm. We forecast revenue to continue growing 5% sequentially each quarter into 2019 and 2020.

The gross margin was 25.6% in 1Q and 25.4% in 2Q. We look for modest gross margin expansion but expect that most of the operating margin expansion we forecast will come from spreading existing infrastructure over a larger revenue base.

The company uses stock for a significant portion of employee compensation and breaks this out in its financials. The cash portion of SG&A works out to around 25% of revenue and we model this coming down to 20% by the end of 2020. The EBITDA margin was negative 4.4% in 2Q with a modest EBITDA loss of \$276k. We forecast EBITDA turning positive in the next few quarters and rising to \$2.5 million for 2020.

We Value PYDS Shares at \$5

We believe that the financial leverage inherent in PDS's model should similarly leverage its stock price. As noted, comps trade at 4.8x revenue or 4.0x excluding Square. We believe that this premium valuation is due to investors understanding and buying into the premise of the electronic payment business. Square is a Silicon Valley electronic payments company that trades at 13.6x revenue and 600x EBITDA. They make the small, white, square adaptors for cell phones and tablets to enable small businesses to accept credit cards. We think that their premium valuation is likely tied to their cool Silicon Valley address and the fact that Twitter co-founder Jack Dorsey is one of their founders but their valuation offers another endorsement of our thesis.

We would also note that we believe that PDS is likely to be acquired over the next several years. They have a unique opportunity to embed their software into the software of the tens of thousands of integrated software vendors, turning their millions of merchant customers into PDS customers. If they continue to be reasonably successful, and their recent growth is more than that, their customer base should be very attractive to a larger and perhaps more traditional financial institution.

Comps Are Generally Larger, Trading at 4.8x Sales, or 4.0x Excluding Square

Company Name	Fiscal Period	Price	Shares Outstanding	Market Value	Enterprise Value	Sales	EBIT	EBITDA	Enterprise Value/ Sales	Enterprise Value/ EBIT	Enterprise Value/ EBITDA
Payment Data Systems	06/30/2018	\$1.63	16.0	26.1	23.4	21.3	(4.1)	(2.3)	1.1x	-	-
PYDS @ 2020E	12/31/20	\$1.63	16.0	26.1	23.4	38.1	(0.5)	2.5	0.6x	-43.3x	9.3x
PYDS @ target on 2020E	12/31/20	\$5.00	16.0	80.0	77.3	38.1	(0.5)	2.5	2.0x	-143.2x	30.9x
First Data Corporation Class A	06/30/2018	\$23.41	564.1	21,858.6	42,833.6	12,052.0	1,837.0	2,809.0	3.6x	23.3x	15.2x
Global Payments Inc.	06/30/2018	\$116.50	158.2	18,428.6	22,391.9	3,975.2	571.9	1,023.1	5.6x	39.2x	21.9x
Total System Services, Inc.	06/30/2018	\$92.91	182.4	16,948.5	20,563.0	4,928.0	747.4	1,153.3	4.2x	27.5x	17.8x
JetPay Corp	06/30/2018	\$2.05	15.4	31.6	106.1	76.0	(0.5)	4.1	1.4x	-	26.1x
Fiserv, Inc.	06/30/2018	\$78.53	404.9	31,798.9	36,256.9	5,696.0	1,522.0	1,955.0	6.4x	23.8x	18.5x
Square, Inc. Class A	06/30/2018	\$74.07	301.6	30,670.5	30,092.9	2,214.3	12.8	50.1	13.6x	2348.8x	600.8x
Worldpay, Inc. Class A	06/30/2018	\$95.16	301.8	30,167.4	37,829.0	4,050.8	570.1	913.0	9.3x	66.3x	41.4x
MoneyGram International, Inc.	06/30/2018	\$4.56	55.6	294.2	1,182.3	1,602.1	(11.4)	63.7	0.7x	-	18.6x
Green Dot Corporation Class A	06/30/2018	\$75.81	52.6	3,985.1	2,922.4	890.2	90.0	154.6	3.3x	32.5x	18.9x
ACI Worldwide, Inc.	06/30/2018	\$25.94	115.8	3,002.8	3,623.7	1,024.2	133.8	236.0	3.5x	27.1x	15.4x
Net 1 UEPS Technologies, Inc.	06/30/2018	\$6.88	56.8	391.0	554.7	612.9	85.0	120.5	0.9x	6.5x	4.6x
Average									4.8x	288.3x	72.7x

Source: Company reports and Dawson James estimates

Payment Data Systems Income Forecast

Dollars in thousands, except per share data
Fiscal years ended December 31

	2018E					2019E					2020E				
	1QA	2QA	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	March	June	September	December		March	June	September	December		March	June	September	December	
Revenue	5,843,665	6,283,875	6,598,069	6,927,972	25,653,581	7,274,371	7,638,089	8,019,994	8,420,993	31,353,447	8,842,043	9,284,145	9,748,353	10,235,770	38,110,311
YoY growth	107.9%	146.4%	83.8%	23.2%	76.1%	24.5%	21.6%	21.6%	21.6%	22.2%	21.6%	21.6%	21.6%	21.6%	21.6%
Seq growth	4.0%	7.5%	5.0%	5.0%		5.0%	5.0%	5.0%	5.0%		5.0%	5.0%	5.0%	5.0%	
Cost of services	4,572,758	4,964,260	5,278,455	5,542,378	20,357,851	5,746,753	5,957,710	6,175,395	6,399,955	24,279,813	6,631,532	6,870,268	7,116,297	7,369,755	27,987,852
As a percent of revenue	78.3%	79.0%	80.0%	80.0%	79.4%	79.0%	78.0%	77.0%	76.0%	77.4%	75.0%	74.0%	73.0%	72.0%	73.4%
Gross margin	21.7%	21.0%	20.0%	20.0%	20.6%	21.0%	22.0%	23.0%	24.0%	22.6%	25.0%	26.0%	27.0%	28.0%	26.6%
S,G&A - cash	1,498,651	1,595,276	1,583,537	1,593,434	6,270,897	1,600,362	1,603,999	1,603,999	1,684,199	6,492,558	1,768,409	1,856,829	1,949,671	2,047,154	7,622,062
As a percent of revenue	25.6%	25.4%	24.0%	23.0%	24.4%	22.0%	21.0%	20.0%	20.0%	20.7%	20.0%	20.0%	20.0%	20.0%	20.0%
Stock-based comp.	374,378	298,477	300,000	300,000	1,272,855	300,000	300,000	300,000	300,000	1,200,000	300,000	300,000	300,000	300,000	1,200,000
Cancellation of stock-based comp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	458,663	457,276	460,000	460,000	1,835,939	460,000	460,000	460,000	460,000	1,840,000	460,000	460,000	460,000	460,000	1,840,000
Operating income	(1,060,785)	(1,031,414)	(1,023,923)	(967,839)	(4,083,961)	(832,744)	(683,619)	(519,400)	(423,160)	(2,458,923)	(317,898)	(202,951)	(77,615)	58,862	(539,603)
Operating margin	-18.2%	-16.4%	-15.5%	-14.0%	-15.9%	-11.4%	-9.0%	-6.5%	-5.0%	-7.8%	-3.6%	-2.2%	-0.8%	0.6%	-1.4%
Interest income	11,521	15,396	16,000	16,000	58,917	16,000	16,000	16,000	16,000	64,000	16,000	16,000	16,000	16,000	64,000
Other income	(1,542)	(420)	-	-	(1,962)	-	-	-	-	-	-	-	-	-	-
Pretax Income	(1,050,806)	(1,016,438)	(1,007,923)	(951,839)	(4,027,006)	(816,744)	(667,619)	(503,400)	(407,160)	(2,394,923)	(301,898)	(186,951)	(61,615)	74,862	(475,603)
Taxes	-	19,000	-	-	19,000	-	-	-	-	-	-	-	-	-	-
Net income to common	(1,050,806)	(1,035,438)	(1,007,923)	(951,839)	(4,046,006)	(816,744)	(667,619)	(503,400)	(407,160)	(2,394,923)	(301,898)	(186,951)	(61,615)	74,862	(475,603)
Net income margin	-18.0%	-16.5%	-15.3%	-13.7%	-15.8%	-11.2%	-8.7%	-6.3%	-4.8%	-7.6%	-3.4%	-2.0%	-0.6%	0.7%	-1.2%
Diluted shares outstanding	12,026,622	12,075,580	12,125,580	12,175,580	12,100,841	12,225,580	12,275,580	12,325,580	12,375,580	12,300,580	12,425,580	12,475,580	12,525,580	12,575,580	12,500,580
Seq change	1,954,588	48,958	50,000	50,000		50,000	50,000	50,000	50,000		50,000	50,000	50,000	50,000	
EPS diluted - continuing	(\$0.09)	(\$0.09)	(\$0.08)	(\$0.08)	(\$0.33)	(\$0.07)	(\$0.05)	(\$0.04)	(\$0.03)	(\$0.19)	(\$0.02)	(\$0.01)	(\$0.00)	\$0.01	(\$0.04)
EBITDA															
Operating income	(1,060,785)	(1,031,414)	(1,023,923)	(967,839)	(4,083,961)	(832,744)	(683,619)	(519,400)	(423,160)	(2,458,923)	(317,898)	(202,951)	(77,615)	58,862	(539,603)
Addback															
Depreciation	458,663	457,276	460,000	460,000	1,835,939	460,000	460,000	460,000	460,000	1,840,000	460,000	460,000	460,000	460,000	1,840,000
Stock comp. expense	374,378	298,477	300,000	300,000	1,272,855	300,000	300,000	300,000	300,000	1,200,000	300,000	300,000	300,000	300,000	1,200,000
EBITDA	(227,744)	(275,661)	(263,923)	(207,839)	(975,167)	(72,744)	76,381	240,600	336,840	581,077	442,102	557,049	682,385	818,862	2,500,397
YoY growth	-298.9%	165.8%	-24.0%	-24.2%	59.7%	-68.1%	-127.7%	-191.2%	-262.1%	-159.6%	-707.8%	629.3%	183.6%	143.1%	330.3%
EBITDA margin	-3.9%	-4.4%	-4.0%	-3.0%	-3.8%	-1.0%	1.0%	3.0%	4.0%	1.9%	5.0%	6.0%	7.0%	8.0%	6.6%

Source: Company reports and Dawson James estimates

Important Disclosures:



Source: FactSet Data Systems

Price target and ratings changes over the past 3 years:

Initiated – Buy – October 23, 2018 – Price Target \$5.00

Dawson James Securities, Inc. (the “Firm”) is a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”).

The Firm does not make a market in the securities of the subject company(s). The Firm has NOT engaged in investment banking relationships with PDS in the prior twelve months, as a manager or co-manager of a public offering and has NOT received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has received other compensation from the subject company(s) in the last 12 months for services unrelated to the managing or co-managing of a public offering.

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Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

VALUATION

Our \$5.00 price target is based on a multiple of 2.0x our 2020 revenue estimate.

RISK FACTORS

1. PDS is a relatively small player selling to much larger corporate entities, so sales can be unpredictable and volatile.
2. PDS still has a relatively small enough customer base that the loss of one or two key customers could materially slow or retard revenue growth. This happened a year ago, as a key ACH customer sold off its customer base, turning ACH operating metrics negative for a year.
3. PDS relies on much larger financial institutions for its business. It has attempted to diversify this risk, and today has relationships with six large institutions, but the loss of one, or a snowball effect of a negative event causing multiple institutions to end their relationships could have a material adverse impact on the business.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

Ratings Definitions:

- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 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.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services in the last twelve months.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	34	92%	10	29%
Market Perform (Neutral)	3	8%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	37	100%	10	27%

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.