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Pareteum Corp. (Nasdaq/TEUM)

BUY **Current Price $2.25 / Target:$5.00**

Pareteum provides cloud software enable communications services and applications.

Raising Target to $5 as Artilium Merger Benefits Begin

- With this report we transition coverage of Pareteum from Robert Wasserman to Barry Sine and raise our price target from $3.10 to $5.00 to incorporate the recently closed Artilium acquisition.
- Pareteum is ideally served to benefit from the "frenemy" trend in the global communications industry as companies utilize network assets and applications from erstwhile competitors to offer a broader range of services and network coverage.
- It is ideally suited to allow the billions of devices expected to connect to the internet via the internet of things (IoT) revolution.
- Pareteum does not operate telecom networks itself but leverages networks from 45 mobile operators in 65 countries and 65 mm wifi hotspots by incorporating software from iPass (IPAS – BUY).
- Artilium was almost Pareteum's twin brother as it provides similar services with a similarly robust group of customers.
- Pareteum's anchor customers are Vodafone (#4 mobile operator globally) and Zain (mobile operator in 9 Middle East countries) while Artilium's is Liberty Global (Europe's largest cable operator).
- In this report we update our model to incorporate the Artilium merger. While our estimates call for continued strong growth, they are considerably more conservative than management's own projections outlined in the August 3rd proxy.
- Our $5 price target is 7.0x our 2020 revenue estimate, which is about a one third discount to the SaaS comps group we use.

Estimates	2018E	2019E	2020E
Revenue($000s)	**$30,882**	**$59,822**	**$75,152**
1Q March	4,113 A	13,903	17,430
2Q June	6,003 A	14,518	18,232
3Q September	8,000	15,399	19,351
4Q December	12,766	16,003	20,138
EPS	**($0.25)**	**($0.27)**	**($0.26)**
1Q March	(0.04)	(0.07)	(0.07)
2Q June	0.02	(0.07)	(0.06)
3Q September	(0.07)	(0.07)	(0.06)
4Q December	(0.07)	(0.07)	(0.06)
P/E (x)	N/A	N/A	-8.8X
EBITDA	$2,508	$11,438	$21,739
EV/EBITDA (x)	49.2X	10.8X	5.7X
Stock Data			
52-Week Range		$0.54	- $3.59
Shares Outstanding (mil.)			55.7
Market Capitalization (mil.)			$125.2
Enterprise Value (mil.)			$123.5
Debt to Capital			2.9%
Book Value/Share			$0.46
Price/Book			4.9 X
Average Trading Volume (3-month) Mill			1.3
Insider Ownership			10.5%
Institutional Ownership			14.0%
Short interest			12.2%

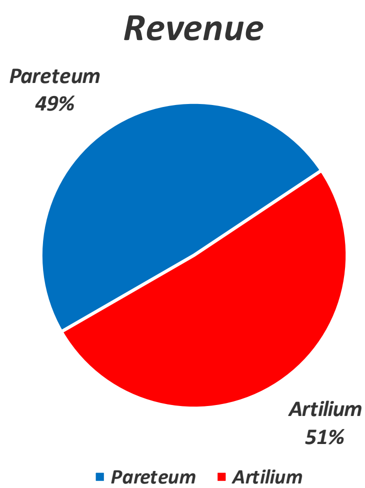
Price target and ratings changes over the past 3 years:
Update - Buy - April 4, 2018 - $2.10 Target
Update - Buy - September 22, 2018 - $3.10 Target
Update - Buy - October 25, 2018 - $5.00 Target

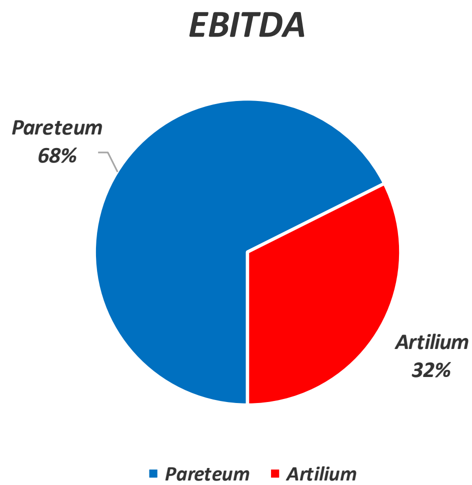
Raising Target to $5 as Pareteum Merges With its Twin

With this report we transition coverage from Robert Wasserman to Barry Sine, update our estimates to include the acquisition of Artilium, which closed October 1, and raise our price target from $3.10 to $5.00.

Pareteum is a fascinating new age communication as a service (CaaS) company with two strong anchor customers (Vodafone and Zain), a compelling product set and a track record of strong growth. Artilium is a close fit, also offering CaaS, also with a strong anchor customer (Liberty Global) and a similar product set. The two companies have been working together since announcing a strategic alliance in October 2017, with strong record of customer wins in the year since the alliance was announced. So, with a successful courtship, the marriage looks to be successful as well.

Pareteum – Artilium 2018 Projections – A Good Fit





Source: Company reports and Dawson James estimates

Pareteum is a software company at its heart utilizing its propriety software housed in the cloud to allow its customers to access communications services and applications. Traditionally, if a company wanted to offer a communications service, it went out, spent billions of dollars and over many years built a network. But this meant that providers were limited to the offerings of their network so, for example, cable TV providers could not offer wireless and operators in Europe could not offer service in Asia. This model is changing into a frenemy model with nearly every company offering access to its network at wholesale rates to other communications services providers, even if they are a competitor. This now means that using Pareteum's cloud offerings, communications providers, or even new entrants who own no network assets, can provide a full suite of offerings across wide geographies and networks.

Pareteum has agreements with 45 mobile network operators in 65 countries to buy access to their wireless networks. In April of this year, it added a strategic alliance with iPass (IPAS - which we cover and rate Buy) to embed its software and access to 65 mm wifi hotspots globally. This adds coverage in most airports, hotels, train stations and convention centers – areas where mobile networks often do not work. Pareteum incorporates technologies from IBM, HPE, Microsoft, Sonus and Oracle, as well as its own software protected by its patent portfolio. In a sharing economy, Pareteum shares both network assets and technology from a wide range of partners, to the benefit of customers. If a customer wanted to replicate Pareteum's offerings on their own, they would need to sign contracts with all of the network and wifi operators and technology providers Pareteum bundles in its easy to use services. Or, they can sign with Pareteum, as many are increasingly doing.

Pareteum targets a wide range of customers for a wide range of uses. Its motto is any device, any network, any time:

- **MNOs** are mobile network operators. Even the largest cannot offer coverage everywhere and bundle every app. For them, Pareteum is a force multiplier allowing them to extend their offering to their customers to much wider network coverage. MNOs are a subset of another acronym, CSPs or communications services providers which includes MNOs as well as operators with fixed copper or fiber networks.
- **MVNOs** are mobile virtual network operators. The virtual means that while they may look to a customer like an MNO, they do not own their own network instead buying capacity on a wholesale basis from others. With Pareteum, they can shop for the underlying network coverage ensuring they offer their customers the best network experience, while minimizing their costs. One way to do this is to move the customers usage to wifi, where available, and where service quality is acceptable, and avoiding the high cost of mobile networks. A new and rapidly growing class of MVNO in the U.S. are cable companies, with both two largest operators – Comcast and Charter – becoming MVNOs using the Verizon network and their own wifi assets.
- **IoT** or internet of things. But perhaps the largest and most explosive use case is IoT. Rather than describing what devices are not connected to the internet, it's easier to list what is not and that list is getting smaller every day. Cars, drones, aircraft, vending machines, home appliances and even lightbulbs and pets are now connected to the internet. Traditional methods for connecting them won't work. If you bought your dog an iPhone, he would probably not be able to use it and probably lose the phone. But with tiny embedded micro radios, and embedded Pareteum software, all of these devices can access the optimal network at the most attractive pricing.
- **Corporate customers.** Today, Pareteum mainly serves telecom companies and it mainly enables telecom services. But almost every enterprise on the planet is strategizing in its board room on how to better deliver their product or service in a world of ubiquitous mobile internet. availability. McDonald's is looking to deliver meals via drones, General Motors is looking to revolutionize the automobile industry by offering its cars as an on-demand service, instead of just a big-ticket purchase every few years of a vehicle that will be used a couple of hours a day. And Kimberly Clark is probably strategizing how to monitor usage of its toilet paper over the internet and provide flat rate toilet paper as a service. The companies will need Pareteum's services even more as they do not have the mobile network tech savvy to effectively compete technologically.

Pareteum offers three network platforms.

1. **Managed services** – as noted, it allows communications service providers (CSPs), MNOs, MVNOs and MVNEs – which are mobile virtual network enablers – to access networks. Pareteum offers billing and operating support systems so its customers can get paid for their service and manage it.
2. **Cloud platform** – while real clouds are often cumulus, the internet cloud is nebulous with the term being so widely used that it has no meaning anymore. In practice, and in Pareteum's case, what this means is that it leases access to space on servers in data centers owned by companies like Equinix or Amazon where it stores their software, making it available to its customers over the internet.
3. **Application exchange developer platform.** There are thousands of companies all over the world, and probably a like number of college students in dorm rooms, writing software applications to take advantage of a world where everyone and everything will soon have continuous, high speed access to the internet. The number of potential applications is unlimited and these developers will probably come up with applications that will significantly impact all aspects of life around the world, once everyone and everything are continuously connected in a global collective. But the mundane part of this is how to deliver these applications and get them to work with each other or at least not conflict. That's where Pareteum comes in.

Customers are beating a path to Pareteum's doorstep, with 85% year-over-year growth in 2Q, a 36-month revenue backlog of $276 million and 2.7 million connected devices, for an average revenue per user (ARPU) of $2.21. And customers don't leave with a churn rate of just 0.14% per month in the second quarter. And it just announced it will report at least 129% YoY organic revenue growth for the September quarter.

Artilium is Pareteum's Brother from Another Mother

Meanwhile, the folks at Artilium had many of the same insights, and their own major anchor customer in European broadband giant Liberty Global. In fact, Artilium sounds much like Pareteum:

It is a software development company serving enterprise and communications services companies with its software layering over, and providing seamless integrated access to, fixed, mobile and IP networks. This allows its customers to offer communications services and applications.

Artilium's key asset is its software platform called ARTA (which was its former ticker symbol) but does not stand for anything, as far as we know. ARTA overlays traditional telecom networks and allows customers, who are either themselves traditional telecom carriers or virtual telecom companies, to provide voice, text and data services to their customers. Today over one million end customers are enabled via the platform. The platform also lets customers open their platform to third party developers to increase the array of available services. Lastly, it provides authentication to ensure only authorized customers are using the platform and accounting and billing to ensure carriers get paid for what customers use.

Artilium serves the same alphabet soup of customer categories as Pareteum including CSPs, MNOs, MVNEs, MVNOs as well as enterprise customers. Example communications services customers are Proximus, which is the largest communications services provider in Belgium offering mobile, TV, voice and internet, and Telenet which is the largest cable provider in Belgium, also offering a full suite of services. A reference enterprise customer in Europe is Philips, which is a large health technology company headquartered in the Netherlands (this Philips is separate from the well-known Phillips Milk of Magnesia product which has two LLs in Phillips and is owned by Bayer). Philips health technology products are increasingly internet connected, so Artilium is a valuable partner.

Given the similarities between the two companies both management teams knew that is was much more than a hunch the two must somehow form a merger. They began with a strategic partnership in October 2017. Over the ensuing six months, the two companies collaborated on 18 joint customer opportunities – three of MNOs and 15 of enterprises ranging from banks to social media to gaming companies. They quickly signed contracts with seven of these with a contract value exceeding $68 mm over three years.

Each Brings Strong, Complementary Anchor Customers

Pareteum

Vodafone Fourth largest mobile operator globally	**Subscriber Numbers**	
Europe	497 mm	mobile
15 countries	38 mm	IoT
Asia-Pacific	13 mm	fixed broadband
5 countries	10 mm	television
Africa and Middle East		
8 countries		

Zain Mobile operator owned by Kuwaiti and Oman governments and public S/H		
Africa and Middle East	49.6 mm	mobile
9 countries		

Artilium

Liberty Global Largest cable company in Europe		
Europe	10.1 mm	mobile
12 countries	24.7 mm	fixed telephony
Puerto Rico	59.6 mm	fixed broadband
Chile	59.6 mm	television

Source: Company reports and Dawson James estimates

Given the success of the alliance, they made it official in June 2018, announcing a merger of the two companies or, since Artilium was a British company, a scheme of arrangement. The deal was structured mainly as a stock deal with about 90% of the $105 mm deal value in TEUM shares, and the rest in cash. The deal closed on October 1 with Pareteum shareholders now owning 58% of the merged company and Artilium shareholders owning 42%, with the breakdown 65%/35% on a fully diluted basis given Pareteum's outstanding options and warrants. The transaction provided an 18.5% premium to Artilium shareholders and valued it at 4.3x 2017 sales, which was a pretty good deal, consider comps trade at 12x. Presumably Artilium sees the greater value in a combined company, which its shareholders will still benefit from as this was mainly a stock deal.

The August 3 proxy the companies prepared for shareholders is unusually candid in terms of future expectations with both companies providing projections out five years to 2022. Our estimates are a bit more conservative, but both we and the management projections suggest continued strong revenue growth and improving margins as the combined company scales and achieves merger synergies. We summarize these projections below. Later in this report, we provide a detailed comp table showing that comps trade at roughly 12x trailing revenue. If we apply this multiple to the projections in the table, it assumes a stock price above $20 by 2022. Our revenue estimate and valuation multiple are more conservative.

The Combined Company Has Ambitious Growth Projections – Which Suggest Strong Stock Performance

	Pareteum		Artillium		Pro Forma		EV @	Implied
	Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA	12x sales	Share Price
2018	24.0	4.8	25.0	2.3	49.0	7.1	588	$6.09
2019	43.3	13.0	31.6	4.2	74.9	17.2	899	$9.27
2020	65.3	21.1	39.4	6.9	104.7	28.0	1,256	$12.94
2021	91.4	32.3	46.2	9.8	137.6	42.1	1,651	$16.99
2022	123.3	43.6	51.9	12.3	175.2	55.9	2,102	$21.61

Source: Company reports and Dawson James estimates

The Acquisition Was Funded 86% Stock and 14% Cash

	Pareteum	Artilium	Transaction	Current
Debt	756,036	12,325	-	768,361
Less: cash	19,434,335	2,736,467	(15,467,248)	6,703,554
Net Debt	(18,678,299)	(2,724,142)	15,467,248	(5,935,193)
Shares	60,236,228		37,314,805	97,551,033
Stock price	$2.55		$2.55	$2.55
Market cap.	153,602,381	-	95,152,753	248,755,134
EV	134,924,082		110,620,001	242,819,941

Source: Company reports and Dawson James estimates

We will have much greater clarity on the combined company over the next two quarters. The September results to be reported on November 7 will not include Artilium, but presumably management will provide some forward-looking statements on what to expect from the newly merged company. When they report year end results early next year, the market should get its first look at the merged company and its potential. Management has already pre-announced revenue of at least $8.0 mm, implying at least 129% YoY revenue growth and 33% on a sequential basis – both solely organic.

Our estimates call for revenue of $8.0 mm and EBITDA of $1.0 mm for the third quarter. For the full year, we expect a Pareteum revenue contribution of $26.9 mm and combined company revenue of $30.9 mm with a one full quarter of Artilium results. Our 3Q estimate is higher than previously as a result of the pre-announcement. We are also folding in Artilium's expected revenue for 4Q and future periods in our updated model.

So, what's all this worth. Our comp table on the next page shows the ten SaaS comparables we use trading at an average of 12.4x revenue. The data in this table is from FactSet showing Pareteum trading at 11.3x trailing twelve months revenue, but this is distorted since trailing revenue excludes Artilium while the enterprise value does include the shares and cash issued as consideration. This is the same way quant models will look at the company, so over the next twelve months, as revenue and enterprise value both include Artilium, TEUM shares would look much cheaper, setting the stage for some quant driven buying.

Another artificial driver of a higher multiple is the fact that with the merger, and stock issuance, TEUM now carries a market cap of nearly a quarter of a billion, taking it out of microcap territory into small cap territory. At our $5 target, it will near the magical half billion market cap threshold, where in our experience buyside and sellside attention pick up and stocks tend to move higher. The table below shows the math behind our valuation with the shares issued to Artilium shareholders and outstanding warrants and options.

We Value TEUM Shares at $5

Debt		768,361
Less: cash		
	Cash on hand	6,703,554
	Proceeds from options	8,675,836
	Proceeds from warrants	18,688,669
Net debt		(33,299,698)
Shares outstanding		97,551,033
Options		3,502,266
Warrants		10,929,046
Fully diluted		111,982,345
Current share price		$2.55
Market cap		285,554,980
Enterprise value		252,255,282
2020E revenue		75,151,884
Multiple		3.4x
Price target		**$5.00**
Multiple		7.0x

Source: Company reports and Dawson James estimates

High Flying SaaS Comps Trade at 12.4x Revenue

Company Name	Fiscal Period	Price	Shares Outstanding	Market Value	Enterprise Value	Sales	EBIT	EBITDA	Enterprise Value/ Sales
Pareteum	06/30/2018	$2.20	99.0	217.8	199.1	17.6	(7.4)	(2.6)	11.3x
TEUM @ 2020E	12/31/20	$2.20	99.0	217.8	199.1	75.2	(25.8)	21.7	2.6x
TEUM @ target on 2020E	12/31/20	$5.00	99.0	495.0	476.4	75.2	(25.8)	21.7	6.3x
Alteryx, Inc. Class A	12/31/2017	$44.79	29.9	2,772.4	2,610.1	131.6	(17.1)	(13.6)	19.8x
Appian Corporation Class A	12/31/2017	$24.25	24.8	1,545.5	1,495.2	176.7	(31.8)	(30.9)	8.5x
Apptio, Inc. Class A	12/31/2017	$28.39	44.6	1,265.5	1,124.4	188.5	(26.2)	(20.1)	6.0x
Cloudera, Inc.	01/31/2018	$14.31	153.0	2,190.1	1,811.7	367.4	(390.3)	(378.2)	4.9x
LogMeIn, Inc.	12/31/2017	$80.20	51.9	4,159.9	4,161.0	989.8	48.0	269.3	4.2x
Okta, Inc. Class A	01/31/2018	$57.27	97.1	6,252.9	5,980.4	260.0	(116.4)	(91.8)	23.0x
Shopify, Inc. Class A	12/31/2017	$132.16	94.1	14,123.3	12,549.1	673.3	(52.6)	(29.2)	18.6x
Talend SA Sponsored ADR	12/31/2017	$61.61	29.9	1,795.5	1,703.4	149.8	(29.0)	(26.9)	11.4x
Twilio, Inc. Class A	12/31/2017	$69.68	79.0	7,175.6	6,804.0	399.0	(65.8)	(47.0)	17.1x
Yext, Inc.	01/31/2018	$18.83	98.6	1,856.4	1,731.5	170.2	(66.6)	(61.5)	10.2x
Average									**12.4x**

Source: Company reports and Dawson James estimates

Pareteum Income Forecast

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

2018E	1Q March	2Q June	3Q September	4Q December	Year
Pareteum revenue	4,112,570	6,003,180	8,000,000	8,828,000	26,943,750
YoY growth	47.1%	85.3%	128.7%	119.9%	98.9%
Seq growth	2.4%	46.0%	33.3%	10.4%	
Artilium revenue				3,938,028	3,938,028
YoY growth					
Seq growth					
Revenue	**4,112,570**	**6,003,180**	**8,000,000**	**12,766,028**	**30,881,778**
YoY growth	47.1%	85.3%	128.7%	218.0%	128.0%
Seq growth	2.4%	46.0%	33.3%	59.6%	241.9%
Cost of revenue	1,194,523	1,779,882	2,320,000	3,702,148	8,996,553
As a percent of revenue	29.0%	29.6%	29.0%	29.0%	29.1%
Product development	726,845	753,931	1,040,000	1,659,584	4,180,360
As a percent of revenue	17.7%	12.6%	13.0%	13.0%	13.5%
Sales and marketing	688,998	652,442	800,000	1,276,603	3,418,043
As a percent of revenue	16.8%	10.9%	10.0%	10.0%	11.1%
General and administrative	2,296,852	2,214,070	2,800,000	4,468,110	11,779,032
As a percent of revenue	55.8%	36.9%	35.0%	35.0%	38.1%
EBITDA	**(794,648)**	**602,855**	**1,040,000**	**1,659,584**	**2,507,791**
EBITDA margin	-19.3%	10.0%	13.0%	13.0%	8.1%
Restructuring charges	73,600	5,592	-	-	79,192
Depreciation and amortization	965,290	994,318	1,000,000	1,000,000	3,959,608
Impairment - assets	-	-	-	-	-
Impairment - goodwill	-	-	-	-	-
Loss on sale of assets	-	-	-	-	-
Operating income	**(1,833,538)**	**(397,055)**	**(4,600,001)**	**(6,744,713)**	**(19,156,683)**
Operating margin	-44.6%	-6.6%	-57.5%	-52.8%	-62.0%
Interest income	42,672	43,193	40,000	40,000	165,865
Interest expense	(63,458)	(99,708)	(100,000)	(100,000)	(363,166)
Interest expense related to debt discount	(29,566)	(30,272)	(30,000)	(30,000)	(119,838)
Changes in derivative liability	(313,733)	1,597,647	-	-	1,283,914
Amortization of debt discount	(6,142)	-	-	-	(6,142)
Other income	69,546	567,710	-	-	637,256
Amortization of deferred financing costs	-	(6,209)	-	-	(6,209)
Pretax Income	(2,134,219)	1,675,306	(4,690,001)	(6,834,713)	(17,565,003)
Taxes	(418)	18,842	-	-	18,424
FX gain / (loss)	104,402	(79,137)	-	-	25,265
Net income to common	**(2,029,399)**	**1,577,327**	**(4,690,001)**	**(6,834,713)**	**(17,558,162)**
Net income margin	-49.3%	26.3%	-58.6%	-53.5%	-56.9%
Diluted shares outstanding	50,062,434	64,741,232	64,741,232	102,056,037	70,400,234
Seq change	50,062,434	14,678,798	-	37,314,805	
EPS diluted - continuing	**($0.04)**	**$0.02**	**($0.07)**	**($0.07)**	**($0.25)**

2019E	1Q March	2Q June	3Q September	4Q December	Year
Pareteum revenue	9,448,548	10,063,511	10,672,939	11,276,883	41,461,882
YoY growth	129.7%	67.6%	33.4%	27.7%	53.9%
Seq growth	7.0%	6.5%	6.1%	5.7%	
Artilium revenue	4,454,245	4,454,245	4,725,634	4,725,634	18,359,759
YoY growth				20.0%	366.2%
Seq growth	13.1%	0.0%	6.1%	0.0%	
Revenue	**13,902,793**	**14,517,757**	**15,398,573**	**16,002,517**	**59,821,640**
YoY growth	238.1%	141.8%	92.5%	25.4%	93.7%
Seq growth	8.9%	4.4%	6.1%	3.9%	373.8%
Cost of revenue	4,031,810	4,210,149	4,465,586	4,640,730	17,348,276
As a percent of revenue	29.0%	29.0%	29.0%	29.0%	29.0%
Product development	1,807,363	1,887,308	2,001,815	2,080,327	7,776,813
As a percent of revenue	13.0%	13.0%	13.0%	13.0%	13.0%
Sales and marketing	1,390,279	1,451,776	1,539,857	1,600,252	5,982,164
As a percent of revenue	10.0%	10.0%	10.0%	10.0%	10.0%
General and administrative	4,448,894	4,355,327	4,311,601	4,160,654	17,276,476
As a percent of revenue	32.0%	30.0%	28.0%	26.0%	28.9%
EBITDA	**2,224,447**	**2,613,196**	**3,079,715**	**3,520,554**	**11,437,911**
EBITDA margin	16.0%	18.0%	20.0%	22.0%	19.1%
Restructuring charges	-	-	-	-	-
Depreciation and amortization	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Impairment - assets	-	-	-	-	-
Impairment - goodwill	-	-	-	-	-
Loss on sale of assets	-	-	-	-	-
Operating income	**(6,839,174)**	**(6,807,103)**	**(6,851,458)**	**(6,760,907)**	**(27,258,640)**
Operating margin	-49.2%	-46.9%	-44.5%	-42.2%	-45.6%
Interest income	40,000	40,000	40,000	40,000	160,000
Interest expense	(100,000)	(100,000)	(100,000)	(100,000)	(400,000)
Interest expense related to debt discount	(30,000)	(30,000)	(30,000)	(30,000)	(120,000)
Changes in derivative liability	-	-	-	-	-
Amortization of debt discount	-	-	-	-	-
Other income	-	-	-	-	-
Amortization of deferred financing costs	-	-	-	-	-
Pretax Income	(6,929,174)	(6,897,103)	(6,941,458)	(6,850,907)	(27,618,640)
Taxes	-	-	-	-	-
FX gain / (loss)	-	-	-	-	-
Net income to common	**(6,929,174)**	**(6,897,103)**	**(6,941,458)**	**(6,850,907)**	**(27,618,640)**
Net income margin	-49.8%	-47.5%	-45.1%	-42.8%	-46.2%
Diluted shares outstanding	102,056,037	102,056,037	102,056,037	102,056,037	102,056,037
Seq change	-	-	-	-	
EPS diluted - continuing	**($0.07)**	**($0.07)**	**($0.07)**	**($0.07)**	**($0.27)**

2020E	1Q March	2Q June	3Q September	4Q December	Year
Pareteum revenue	12,085,391	12,886,623	13,680,643	14,467,517	53,120,174
YoY growth	27.9%	28.1%	28.2%	28.3%	28.1%
Seq growth	7.2%	6.6%	6.2%	5.8%	
Artilium revenue	5,345,095	5,345,095	5,670,761	5,670,761	22,031,710
YoY growth	20.0%	20.0%	20.0%	20.0%	20.0%
Seq growth	13.1%	0.0%	6.1%	0.0%	
Revenue	**17,430,486**	**18,231,717**	**19,351,404**	**20,138,278**	**75,151,884**
YoY growth	25.4%	25.6%	25.7%	25.8%	25.6%
Seq growth	8.9%	4.6%	6.1%	4.1%	373.2%
Cost of revenue	5,054,841	5,287,198	5,611,907	5,840,101	21,794,046
As a percent of revenue	29.0%	29.0%	29.0%	29.0%	29.0%
Product development	2,265,963	2,370,123	2,515,682	2,617,976	9,769,745
As a percent of revenue	13.0%	13.0%	13.0%	13.0%	13.0%
Sales and marketing	1,743,049	1,823,172	1,935,140	2,013,828	7,515,188
As a percent of revenue	10.0%	10.0%	10.0%	10.0%	10.0%
General and administrative	4,183,317	3,646,343	3,483,253	3,020,742	14,333,654
As a percent of revenue	24.0%	20.0%	18.0%	15.0%	19.1%
EBITDA	**4,183,317**	**5,104,881**	**5,805,421**	**6,645,632**	**21,739,250**
EBITDA margin	24.0%	28.0%	30.0%	33.0%	28.9%
Restructuring charges	-	-	-	-	-
Depreciation and amortization	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Impairment - assets	-	-	-	-	-
Impairment - goodwill	-	-	-	-	-
Loss on sale of assets	-	-	-	-	-
Operating income	**(6,926,366)**	**(6,469,516)**	**(6,418,394)**	**(6,034,570)**	**(25,848,843)**
Operating margin	-39.7%	-35.5%	-33.2%	-30.0%	-34.4%
Interest income	40,000	40,000	40,000	40,000	160,000
Interest expense	(100,000)	(100,000)	(100,000)	(100,000)	(400,000)
Interest expense related to debt discount	(30,000)	(30,000)	(30,000)	(30,000)	(120,000)
Changes in derivative liability	-	-	-	-	-
Amortization of debt discount	-	-	-	-	-
Other income	-	-	-	-	-
Amortization of deferred financing costs	-	-	-	-	-
Pretax Income	(7,016,366)	(6,559,516)	(6,508,394)	(6,124,570)	(26,208,843)
Taxes	-	-	-	-	-
FX gain / (loss)	-	-	-	-	-
Net income to common	**(7,016,366)**	**(6,559,516)**	**(6,508,394)**	**(6,124,570)**	**(26,208,843)**
Net income margin	-40.3%	-36.0%	-33.6%	-30.4%	-34.9%
Diluted shares outstanding	102,056,037	102,056,037	102,056,037	102,056,037	102,056,037
Seq change	-	-	-	-	
EPS diluted - continuing	**($0.07)**	**($0.06)**	**($0.06)**	**($0.06)**	**($0.26)**

Source: Company reports and Dawson James estimates

Important Disclosures:

Source: FactSet Data Systems

Price target and ratings changes over the past 3 years:
Update - Buy - April 4, 2018 - $2.10 Target
Update - Buy - September 22, 2018 - $3.10 Target
Update - Buy - October 25, 2018 - $5.00 Target

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Valuation:

We value TEUM shares at 7.0x our 2020 revenue estimate, or a one third discount to the 12.4x comps trade at on their trailing results.

Risk Factors:

1. The first risk factor to consider after a company has completed such a sizable merger is integration risk. We think this is mitigated by the fact that the two companies enjoyed a 24-week strategic alliance (courtship) period before announcing their merger. However, problems with systems integration of critical systems such as billing or customer support could delay revenue, increase churn and result in lower cash flow.
2. Pareteum is still a relatively small company, competing with most of its telecom network and technology suppliers. While this frenemy arrangement is common in the industry, should one or more larger partners decide it no longer wants to partner, this could negatively impact the company.
3. Cyber threats are always a risk and especially so for a company whose whole business is based on software in the cloud. Should a malicious actor be able to breach the company's software at some point and disrupt its services or compromise customer confidential information, its business would likely suffer.

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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.

	Company Coverage		Investment Banking	
Ratings Distribution	# 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:

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