

SITO Mobile, Ltd. (NASDAQ/SITO)**BUY Price \$0.90 / Target: \$2.00**

SITO is a location-based advertising company utilizing its extensive consumer location database and advanced analytics to allow advertisers to precisely target ads.

*December 21, 2018**Barry M. Sine*

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Superior Data, Analytics and Relationships Make SITO a Leader in Location-Based Mobile Advertising

- We initiate coverage of SITO Mobile with a Buy rating and \$2 twelve-month price target.
- SITO is a leader in the emerging field of using location information from mobile devices to precisely target mobile advertising to consumers most likely to respond.
- The digital advertising industry is huge at nearly a quarter of a trillion dollars globally, growing 20% annually.
- SITO has a unique blend of much longer data history in its database than peers, better in-house analytics and, most importantly, deep relationships in advertising and marketing.
- Venture investors have flooded the location-based advertising sector with funding, but SITO is the only company we know of in the sector with a marketing focus. Most of its Silicon Valley peers are more focused on technology.
- SITO can point to results and positive ROI. Click-through rates for its ads are 1.7x the industry average. For financial sector advertisers it is 3.8x greater and for telecom advertisers it is 14.7x greater.
- Its largest customer in 1Q just signed a new long-term contract, suggesting that SITO does what it claims to do.
- It is focusing on long-term contracts with Fortune 100 companies which own brands and this enterprise business was 34% of revenue for the first nine months of 2018, up 76%.
- SITO is still relatively early into a strategic transformation with a new management and board coming on in the last two years.
- We view this as an excellent entry point with the stock 88% off its 52-week high and only a nickel above its 52-week low. We discuss why the going concern issue cited in the last 10Q should be resolved, taking pressure off the stock.
- Our \$2 target is 1x our 2020 revenue estimate versus 1.4x for comps. With all the venture capital money flooding into the space, we wonder why these investors have not sought to acquire SITO.



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Rating	Buy	Earnings Per Share				
Target Price	\$2.00	Normalized to exclude unusual items				
Ticker Symbol	SITO	FYE - December	2017	2018E	2019E	2020E
Market	NASDAQ	1Q - March	(\$0.14)	(\$0.29) A	(\$0.16)	(\$0.09)
Stock Price	\$0.90	2Q - June	(\$0.13)	(\$0.24) A	(\$0.17)	(\$0.10)
52 wk High	\$7.25	3Q - September	(\$0.10)	(\$0.20) A	(\$0.16)	(\$0.10)
52 wk Low	\$0.85	4Q - December	(\$0.30)	(\$0.19)	(\$0.14)	(\$0.02)
Shares Outstanding:	25.4 M	Year	(\$0.68)	(\$0.92)	(\$0.63)	(\$0.31)
Public Market Float:	18.7 M	Revenue (000s)	\$42,990	\$40,387	\$46,236	\$55,483
Avg. Daily Volume	112,564	EV/Rev	0.4X	0.5X	0.4X	0.3X
Market Capitalization:	\$23 M	EBITDA (000s)	(\$302)	(\$11,455)	(\$6,254)	\$783
Institutional Holdings:	15.0%					
Dividend Yield:	0.0%					

Senior Executives		Common Ownership Profile		
		Shareholder	Shares ('000)	% of Total
Thomas J. Pallack	Chief Executive Officer	Peter B. Cannell & Co., Inc.	973.0	3.8%
William A. Seagrave	COO and co-CFO	The Vanguard Group, Inc.	764.8	3.0%
Aaron Tam	co-CFO	Laurel Wealth Advisors, Inc.	697.0	2.7%
Michael Blanche	Chief Technology Officer	AWM Investment Co., Inc.	302.5	1.2%
Alex Cherones		National Asset Management, Inc.	220.4	0.9%
Bruce Rogers	Head of Marketing	Directors and Officers		0.0%

Capitalization			
Market Value Basis ('000)	12/19/2018	%	
Long-Term Debt	\$12	0.1%	
Market Value of Equity	22,894	125.3%	
Less: cash	-4,628	-25.3%	
Enterprise Value	\$18,278	100.0%	
Book Value Basis ('000)	09/30/2018	%	
Long-Term Debt	\$12	0.1%	
Other Liabilities	10,683	44.8%	
Book Value of Equity	13,171	55.2%	
Total Capital	\$23,866	100.0%	



Source: Company reports, FactSet Data Systems and Dawson James estimates.

The Most Location Data and The Best Analytics

We initiate coverage of SITO Mobile with a Buy rating and a \$2 twelve-month price target. SITO provides location-based advertising services and is in the midst of a strategic transition which began last year. Location-based advertising sends advertising to consumers' mobile devices based on a complex set of information with their current and historical location among the most important pieces of data. We view this as an excellent entry point for the stock as it is 88% off its 52-week high and just five cents over its 52-week low. The fourth quarter is typically the busiest quarter in the advertising industry, so investors should have another strong quarter to look forward to and by 2019, we expect the company's new strategy to be driving accelerating results.

SITO is addressing an enormous and growing ad market. Digital advertising is estimated at \$245 billion globally, growing at 20% per year. SITO does not address the roughly two thirds of the market addressed by Google and Facebook – search and social – but does address the remaining roughly \$78 bn.

SITO specializes in location-based advertising. It has detailed information on the location of consumers 24/7 going back at least two years. Privacy laws prevent it from tracking actual people, so what it tracks are actually devices – phones – which are a very good proxy for their owners, and fully legal to track.

- 300 million USA and Canadian mobile users reached (98% of total)
- 200 thousand Apps on SITO platform
- 145 million Verified locations
- 2,500 Audience segments

SITO also provides four key data points to emphasize its reach. First, it “reaches” 98% of US and Canadian mobile users which we calculate to be about 300 million. This statistic alone is very impressive although it's not clear how many other competitors can boast a similar reach. Next the company touts the fact that there are over 200,000 apps on its platform. Through its relationships with numerous app vendors, where users have opted in to data collection, SITO can collect the location of the device on which the app is installed. Consumers will give up their privacy and opt into data sharing for the most trivial of rewards, and consumers are typically asked to do so multiple times a day. (Do you read every user agreement before agreeing to it? And even if you do, do you understand them?) SITO also notes that its database contains 145 million verified places. So it knows for example, that a certain set of GPS coordinates is a particular dentist's office and another is a CVS store. Lastly, it notes that it has broken customers into 2,500 pre-defined audience segments. The members of each segment are anonymous, but advertisers can target one or more segments known to have a proclivity to buy a certain product or service with ads for that service. Altogether, SITO's database contains 2.7 petabytes of data (equal to 175 libraries of Congress), stored in the AWS cloud, in compressed form. A recent AT&T Adworks ad gave a good example of the type of targeting error it can help advertisers avoid showing a salesperson pitching retirement plans to kindergartners and workboots to fashion models. SITO can offer similar benefits.

SITO can point to actual results. In its investor slide deck, it notes that its consumer click through rates are 70% higher than the industry average, at 0.65% versus 0.38%. For financials it is much higher, with a click through rate triple the industry average or 1.28%

versus 0.34%. For the telecom industry it increases the click through rate by fourteen times or 0.88% versus an industry average of just 0.06%.

The Location-Based Advertising Ecosystem is Crowded With Venture Backed Startups

Mobile Ad Placement Ecosystem

					Revenue \$ mm	Employees
	SITO	www.sitomobile.com	Mobile ad placement and analytics	Jersey City, NJ	43.0	90
	ESRI	www.esri.com	Provides maps, data and analytics	Redlands, CA	980.0	4,433
	Carto	www.carto.com	Software to use location data in analytics	Brooklyn, NY	4.0	122
	Cuebiq	www.cuebiq.com	Location database and artificial intelligence	New York, NY	2.1	10
	Foursquare	www.foursquare.com	Location intelligence services	New York, NY	8.0	141
	GroundTruth	www.groundtruth.com	Location data technology	Mountain View, CA	163.4	450
	MapBox	www.mapbox.com	Add location ability to apps such as Lyft	Washington, DC	100.0	300
	NinthDecimal	www.ninthdecimal.com	Location data marketing information	San Francisco, CA	81.2	132
	4Info	www.4info.com	Ad targeting and measurement	San Mateo, CA	10.2	106
	ThinkNear	www.thinknear.com	Location technology div. of TeleNav	Santa Clara, CA	7.0	64
	PlaceIQ	www.placeiq.com	Advertising measurement and analytics	New York, NY	56.6	138
	Valassis	www.valassisdigital.com	Advertising analytics - acquired MaxPoint	Livonia, Michigan	2,400.0	3,000
	Verve	www.verve.com	Mobile advertising platform	New York, NY	25.0	250
	Factual	www.factual.com	Location data provider	Los Angeles, CA	4.8	105
	Apsalar	www.apsalar.com	Mobile ad spend ROI measurement	San Francisco, CA	5.0	60
	Moasis	www.moasis.com	Use location to target ads	Austin, TX	7.9	26
	Placed	www.placed.com	Predictive location software	Seattle, WA	5.0	111
Digital Media Conglomerates						
	Facebook	www.facebook.com	Largest social media company - second largest digital advertising		40,653	25,105
	Google	www.google.com	Largest search engine globally - largest digital advertising		111,020	80,110
	AT&T	www.att.com	Largest video provider globally - owns Warner Media		160,550	252,000
	Verizon	www.verizon.com	Largest wireless provider US - owns AOL and Yahoo!		126,030	155,400

Source: Company reports and Dawson James estimates

There are numerous small, startup companies around the location-based services advertising ecosystem. The table above provides a list on many of these. Many make some of the same claims that SITO makes. In fact, one industry observer noted that it appears that the same web developer developed the websites for many of these companies as they are so similar. Many claim to have superior data, but there are a number of reasons why we think SITO has better data. First, apps share location data with many vendors. So SITO and its peers all have mostly the same location data. It only takes one app to send the data and most users have dozens or more apps on their phones. But SITO's advantage

is that it has been doing this for over two years and has built a long-term database. It is this long history, not just current snapshots, that is most valuable and is a SITO competitive advantage.

In terms of identifying locations, every competitor with access to this data gets the same numerical coordinates and all use some combination of the same third-party data to figure out what that location is. What is unique about SITO is the years of analysis they have done understanding that a certain coordinate is a children's soccer field so if a parent visits it every Saturday morning at the same time during soccer season, their kids must play soccer.

The final piece of the data puzzle is third party data sources that allow SITO to develop profiles including income, household size and composition, and home value. It buys data from cash registers and from Visa and Mastercard. This allows it to create a very accurate image of the owner of a particular device, including their purchasing habits.

SITO's next advantage is its analytics. SITO has 90 employees, of which 21 are developers or analysts, 16 of which reside at its Jersey City headquarters. SITO has built its own software, while many competitors rely on third-party software, so it can customize it as needed for clients. With all of its data on the locations of consumers and where they have been over a two-year period, it can analyze this data to provide important insights that can be of enormous value to advertisers. Again, SITO's competitors look to be focusing on the analytics portion of this so they may catch up to SITO in this area over time, especially those with sizable venture backing located in Silicon Valley.

But SITO's big guns are the Rolodexes of its management and board. The new CEO and COO and even newer head of marketing have enormous contacts in the industry and are now leveraging these to get their foot in the door. The company has also added five board members with extensive contacts, four of them in July 2018.

A Board With a Purpose

Prior to current management taking over in 2017, SITO was beset with management turnover, board turnover and unhappy activist investors. Interestingly, the company's CEO Tom Pallack found SITO through his research, not the other way around. He brings a strong background to the company having held positions at Oracle, Ariba, Consilium and NCA. More recently, he started and ran his own software firm in 2005 - Strategic Business Velocity (SBV). Pallack was interested in doing something in martech and identified key trends including the importance of location data in advertising. This led him to SITO and he was intrigued by the company's intellectual property including its 35 patents. He knew several of the funds with large investment holdings in the company and they began a dialogue.

On June 5, 2018 57% of shares were voted to oust five of the six board members and install a new board, including Pallack. Pallack was also appointed as interim CEO and he immediately announced a shift to the current strategy of pursuing larger customers who are actual brand owners rather than just advertising agencies. On June 30 Pallack was formally named CEO and he brought in current COO Bill Seagrave. We had a long meeting last summer with Seagrave and found him to be a passionate advocate of the company's strategy. Seagrave brings experience from Cisco, Oracle, Intel and Baxter.

In our discussions with him, Mr. Pallack described the new board which has been assembled as "a board with a purpose". The purpose is to leverage their collective rolodexes to open doors for the company's sales efforts as it seeks to target larger Fortune

100 companies as customers. The first of these new board members was Steve Bornstein. Bornstein is credited with having built ESPN into the sports programming powerhouse it is today. He joined at age 28 when ESPN was just four months old in 1980 and became CEO a decade later. He starting the highly successful SportsCenter show and the network won 59 Emmys and 57 Cable Ace Awards during his tenure. He moved over to run ABC Sports in 1996 and created the College Football Championship Series making ABC Sports the leader in college football. Three years later, he became president of all of ABC. In 2003, he was recruited by the NFL to start the NFL Network and ultimately brought all of the NFL's internet and mobile assets in house. After retiring from NFL Networks in 2014 Bornstein was elected to the Sports Broadcasting Hall of Fame and now serves on several boards, including SITO's.

In July 2018, the rest of the current board came on. Three directors were announced on July 5th. Steve Felsher spent the early part of his career in advertising, rising to Vice Chair and CFO of Grey Advertising. He left Grey in 2007 and has served on boards and has been active with a number of investment funds. Bonin Bough is a noted author and TV host. After a career in advertising, he joined Pepsi in 2008 and was named one of the 100 Most Creative People in Business by *Fast Company* magazine in 2011 for his work there. He then went on to run eCommerce for Mondelez International. Jonathan Bond has had an illustrious career in advertising and in 2010 he was voted number four in *Adweek's* Executive of the Decade awards. Bond was elected board chair in August 2018. A few weeks after the group of three were added to the board, on July 26 the current board was filled out by another Pepsi alum, Brett O'Brien. Mr. O'Brien led Pepsi's Mountain Dew and Sierra Mist brands and later led Gatorade's North American business. In recognition of his achievements he was named to *Advertising Age's* 40 under 40 last and in 2010 *Brandweek* named him its Marketer of the Year.

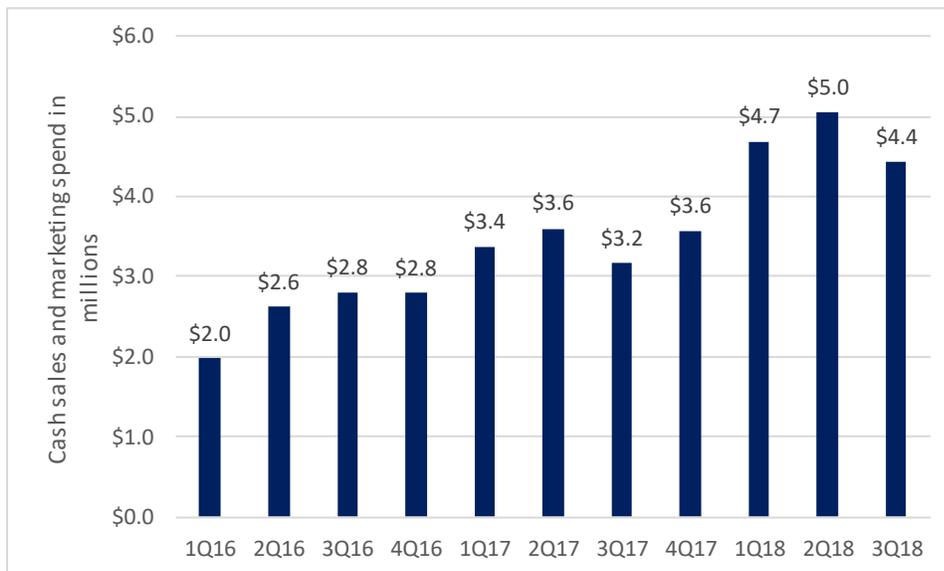
The current board members all have tremendous records of accomplishment, yet they all sit on the board of a tiny \$24 mm market cap company. They are all strong believers in the importance of location data in advertising and were drawn to the company's leading database and analytics. But as Mr. Pallack noted to us, he is relying on them to open doors and introduce SITO's capabilities to their many corporate relationships they have made over the decades of their careers.

In addition to its board and management contacts, SITO is investing heavily in sales and marketing. In a recent issue of *Ad Age*, the industry's flagship publication, SITO has a two page fold out ad inside the front cover. The ad tells a clear four-part story of what SITO does:

1. Audience intelligence
2. Advanced planning
3. Omni channel executions
4. Impact and ROI

SITO has also added to the size of its salesforce, which now numbers 20. The strategic plan relies on having competitively superior data, competitively superior analytics, executives and board members who can open doors for initial meetings with CMOs and a brand campaign, so its target audience knows the SITO name and basically what the company does. The chart below shows the company's sales and marketing spend, ex stock comp, over the last 11 quarters.

Sales and Marketing Spending Has Surged Under New Management



Source: Company reports and Dawson James estimates

The sales campaign is showing some promise with 30 pilots underway as of mid-year, and many more likely now. Some pilots are no cost marketing where SITO shares some insights in the hope of winning a customer while others bring a small amount of revenue. The target is the individual brand manager, whether it be Gregory’s Coffee or Lucky Charms cereal, who control campaigns tied to individual brands.

In our opinion, the holy grail in this business is accurate ROI calculation. If a CMO can provide data to his CFO that a \$1 million advertising campaign expenditure will lead to \$100 million in revenue and \$10 million in profit, even the stingiest CFO will become an advocate of this type of spending. We are not at the point where SITO can provide precise data in all cases, but we are moving in that direction. One problem that will always persist is that it is impossible to fully determine with 100% accuracy why a consumer made a purchase decision. SITO may know that a consumer saw an ad it delivered and then brought the product, but was the consumer previously conditioned to buy by an influencer, who could be a celebrity, a friend or relative, or by some other advertisement such as a billboard or some combination thereof? But SITO is getting closer to this end goal with its wealth of data and analytics.

The prior strategy was more basic mobile ad placement with the target customer base being mid-sized advertising firms. The problem with this business was that it targeted single, short-term ad campaigns with little recurring revenue and less predictability. This business is also becoming commoditized with declining pricing and shrinking margins.

The new strategy targets the 500 or so brand managers with the largest ad budgets. It starts with the insights the company can offer using its database and analysis. For this part of the business, SITO has been compared to consulting firms like McKinsey, albeit with a focus on ad campaigns and with its own data.

The bigger revenue pie is ad placement and if SITO is successful in its winning both ad placement and analytics contracts the revenue potential here is about ten times just the analysis. SITO seeks to close the loop, analyzing the results of the ad buys, tracking ROI and providing feedback to the customer. In these relationships, it is looking to sign long-

term, roughly three year, deals where it becomes more of a strategic partner than a one-off vendor.

On the company's November earnings call, COO William Seagrave provided some specifics. He first cited the company's breadth and depth of data tied to specific device IDs. That means it knows what stores, workplaces, and vacation and leisure venues a phone has been taken to. Presumably it also has more sensitive data such as what schools or pre-schools the phone visits each morning and afternoon and what medical practices it visits. Its database goes back about two years and SITO notes that changes in routines can be particularly valuable to a brand. For example, if a customer has visited Starbucks every morning, but is now visiting Dunkin Donuts, can Starbucks use this knowledge to win a customer back?

SITO can then tie its data to demographic, financial household information to provide even more valuable insights to its customers. This gets tricky however since privacy laws prevent it from creating personally identifiable databases of specific people, so it has to anonymize this data and only use higher level insights. For example, if the shift from Starbucks to Dunkin Donuts was prominent among plumbers in Paducah, it might tell Starbucks to target ads at this demographic to win back customers.

The company now has 17 field salespeople targeting ad agencies, and three targeting major brands. It recently brought in a new, highly respected head of marketing, Bruce Rogers, who was previously with Forbes Media. Rogers had been working with SITO heading up its outside advisory board and transitioned to a management role in March. Rogers also apparently has great relationships with chief marketing offices (CMOs) as the leadership council he created at SITO now boasts major advertisers across multiple industries including TD Ameritrade, WeWork, Hyatt, Staples, Capital One and Hershey. In our opinion, Capital One is particularly notable as internally the company fancies itself more of a marketing company rather than a credit card company using its enormous targeted direct mail program to build its customer base.

The leadership council is branded as The SITO Institute for Consumer Behavior and Analysis. Its board now consists of global marketing executives with experience at brands such as Citi, Hershey, Hyatt and Aetna.

Another key hire management has bragged about recently is Alex Cheronas as its new Head of Product Development. Previously, he had spent 15 years with AT&T. Cheronas was responsible for cyber security threat management and AT&T has featured several interviews with him on its YouTube channel that are still available. He has also worked on big data analytics. At SITO, one area management noted was the need to provide data analytics to customers more quickly, with the goal being real time feedback. Mr. Cheronas is expected to drive this initiative via Android.

Digital Advertising is the Future, but it's a Crowded Field Dominated by Giants

The digital advertising market is worth around \$75 billion domestically and \$245 billion globally, of which about half is mobile. It is dominated by Facebook with \$40 billion in ad revenue and Google with \$27 billion. Like SITO, but on a slightly larger scale, these companies leverage the knowledge of customers they gain through their businesses, to provide more targeted advertising. Both are also major traffic destinations, unlike SITO. Facebook's customers provide it with the most personal information including lists of their friends and posts about personal experiences. Its mobile app also captures location data.

Google dominates the search market and is also a major email platform. By knowing what you are searching for and what sites you are visiting it can better target advertising. Google also owns the dominant mobile phone operating system in Android and can collect user location data.

There are also two notable new entrants in AT&T and Verizon. AT&T has more direct paying customer relationships than any other company in the U.S., but has done little to monetize these relationships with advertisers. Until recently, it also lacked for adequate advertising inventory to sell ads as well. Via DirecTV, it is the second largest video provider globally (after Comcast/Sky) and it can place ads in the video stream. With the recently closed Time Warner acquisition, it now has a much larger platform of cable channels to insert ads.

Verizon is even larger than AT&T in terms of US mobile subscribers. And while it shares AT&T's advertising ambitions, it lacks sufficient outlets to sell advertising. Its foray into millennial content, Go90, recently exited the market. But both AT&T and Verizon share something that Facebook, Google, SITO and others lack: actual, verified, paying customer relationships. It is very difficult to sign up for phone, video or internet service from AT&T, Verizon and other utilities without sharing verifiable personal information and agreeing to a credit check. Both run the actual networks, so they don't have to use their own or third-party apps for location data and both are legally required to continually track device location. But historically, both have lacked the analytic capability to make much use of this, which is something SITO excels at. For Facebook and Google it is relatively easy for users to provide false information when signing up and their services are provided to consumers for free. Google can rely on location data from Android users and Facebook from its mobile app users. Both are leaders today in creating algorithms to analyze what they know about customers to help advertisers get the most return on their advertising dollar.

Below these four behemoths are a labyrinth of smaller competitors. We found 16 companies that sound comparable to SITO. Many touted that they had the best data, or most accurate location technology. Several also listed Fortune 100 brands but some brands, like Starbucks, showed as a customer of multiple companies. It does appear that SITO is behind in targeting Fortune 100 customers, however. It's impossible to sort out the competition from their marketing hype but several data points do stand out. Website Owler.com provides estimated revenue and number of employees for private companies. Based on their data all but a handful of competitors had a fraction of SITO's revenue while some of these smaller companies had more employees and apparently they are living off the largesse of venture capital funding. We believe that SITO's size and board relationships means it will stand out in a crowded market and it will at least get a meeting with target customers. With everyone claiming to have the smartest analytics and best data, it is difficult to make a judgement on quality.

Government Actions Focusing on Personal Privacy

A key question facing SITO is whether increasingly stringent personal privacy laws will hamper its business. An important distinction is that SITO tracks the device, not the person and in fact SITO does not track who the owner of the device is. They can make important deductions such as where the device spends each night and with whom, what the demographics of that neighborhood are and where the device travels during the day. For example, does it stop at a school every morning and afternoon, meaning the device owner

likely has kids, does it spend the day at a school, meaning the owner is a student (or teacher)?

The most significant privacy legislation globally is the European Union's General Data Protection Regulation or GDPR which went into effect on May 25, 2018. This legislation is so significant that it resulted in some SITO customers pausing in using the company's services in the second and third quarters as they reviewed compliance with the new law. But now that there is a better understanding of what the law means in practice, we expect a return to business as usual. The good news for small companies like SITO is that the giants like Google and Facebook are bearing the brunt of the law. In November 2018, Google was charged with GDPR violations by seven countries. Smaller players like SITO can learn from the experience and significant legal expenditures of the giants, and adapt their practices accordingly before they are targeted. We also note that while SITO has global ambitions, it is currently primarily a North American company. The main effect of GDPR has been an update to the privacy policies of many websites globally. In May users were met with a blizzard of annoying popups asking them to affirmatively consent to the new policies and continued data sharing, and most did so to get rid of the popup box.

In June 2018 the state of California passed the California Consumer Privacy Act (CCPA) of 2018 which mimics GDPR. With this law, U.S. companies which had opted not to become GDPR compliant are now doing so as it is hard to do business on the internet in the U.S. while avoiding California, especially for mobile devices. CCPA took effect immediately upon passage, but the implementing regulations won't go into effect until January 1, 2019. CCPA, like GDPR, requires consumers to affirmatively opt in, which nearly all do. It also specifically includes the geolocation data that is SITO's specialty.

The other development mentioned by management was a Supreme Court decision in June 2018 in the case of Carpenter vs. United States. While not directly relevant to the business currently it does provide important context to the privacy discussion. In that case, the government obtained cell phone location data on a robbery suspect from a carrier without a warrant. The case was decided 5-4 in favor of Carpenter with the four liberal justices pairing with Chief Justice Roberts. The court opined that location data is uniquely personal and in this case, the plaintiff did not "share" his data as it was provided automatically whenever his phone was turned on. With SITO, all data comes from apps where the consumer had opted in. But the court went on to recognize that carrying a cell phone "is indispensable to participation in modern society". While this case only applied to law enforcement obtaining records without a warrant, the growing realization of the highly personal nature of local data, coupled with the indispensability of carrying a cell phone may lead to further restrictions on the use of this data. In this case, the government obtained an average of 101 data points per day over the course of 127 or 12,898 data points in total.

Despite these protections, leaks of confidential location data abound, with many recent cases apparently due to careless data security policies. A California company called LocationSmart was collecting this data and via a demo app on its website, anyone could enter a person's cell number, email address and name, and get their current location to within a few hundred yards or closer. LocationSmart is a good example of the technology focus of the slew of venture-backed firms in the industry. While its senior management team have impressive technology resumes, not a single manager or board member has any experience in advertising. This contrasts with the advertising/marketing focus of SITO's board and management.

While numerous articles exist on the web instructing consumers how to stop tracking of their cell phones it is not possible in the United States. Carriers are required to continually

track the location of every cell phone so that in the event the consumer needs to call 911, the call is routed to the correct PSAP (public service answering point). In fact, federal regulations have required that carriers invest in new technology to greatly improve the location accuracy via cell site triangulation methods.

Revenue Set for Take-off After a Choppy 2018

Revenue has been choppy during 2018 but fortunately the upcoming fourth quarter represents the seasonally strongest quarter of the year. The first quarter started out strong with revenue up 70% versus 1Q 2017, to \$11.1 mm. The strength came from Christian media company Pureflix that was responsible for 46% of revenue. Pureflix was formally introduced as a customer in an October press release. While management did not go into detail, it's easy to envision that cell phones that spend several hours in a Christian house of worship every Sunday morning might be a good target for Pureflix's movies when they are in theaters. SITO can also determine if a device which was sent a Pureflix ad later visited a cinema showing one of Pureflix's movies. The fact that the company announced Pureflix as a customer several months after it spent \$5 mm with SITO tells us that SITO worked for them. The company has also announced Ribbow Media as a client. Ribbow calls itself Hollywood's secret weapon combining science, art and empathy to put customers in theater seats. Apparently SITO is Ribbow's secret weapon.

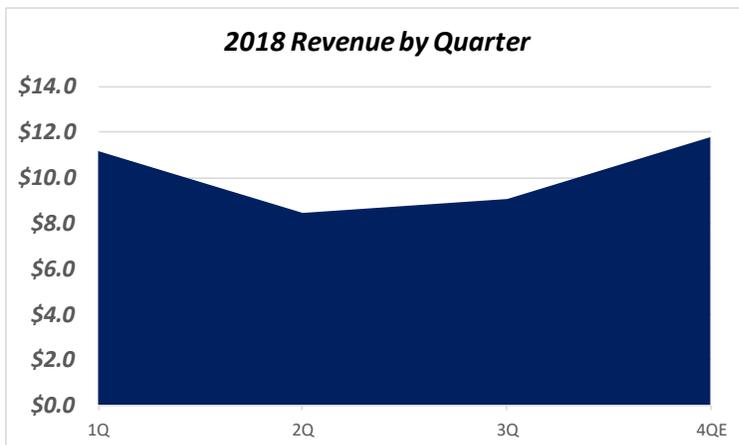
Second quarter was the low point as management pre-announced on June 12 that revenue would be in the range of \$8 mm to \$9 mm for 2Q. The actual number came in at \$8.4 mm. The weakness of the quarter highlighted the pitfalls of the old transactional business model. Without steady recurring revenue, if key customers did not have ad campaigns running, SITO would have a weak quarter, and it did. The second quarter weakness was partially attributed to customers going back and reviewing the privacy policies of vendors such as SITO, and SITO ensuring that its data sources were GDPR compliant. We view this as a short-term delay. As customers become comfortable with GDPR compliance, it becomes less of an issue.

Third quarter revenue accelerated 7.5% sequentially to \$9.1 mm but still represented an 18% year over year decline. The good news hidden in the earnings call was that the company's new business model is working. Enterprise revenue was 34% of total revenue for the first nine months of the year or \$9.7 mm. This was an increase of 76% from the 2017 level suggesting strong success in the new strategy.

For the fourth quarter, ad spending is typically heavy around the Christmas shopping season. Fourth quarter revenue was 35% of full year revenue last year. We model \$11.8 mm in revenue for 4Q, getting the company ahead of where it was in 1Q.

Looking ahead, the company faces a strong comp in 1Q 2019 so we model flat revenue year over year, but from then on we look for the new business model to kick in with double digit revenue growth.

A V-Shaped Recovery in Revenue Has Started



Source: Company reports and Dawson James estimates

Understanding the Going Concern Risk

One aspect of the company’s business that investors should be aware of is that it is surprisingly capital intensive. The company buys advertising inventory ahead of time for its clients but does not get paid by them for 60 to 90 days. For 3Q accounts receivables days outstanding was 91 days and it has ranged between 80 and 105 days, while payables were just 30 days for a 61-day cash conversion cycle. With \$4.6 mm in cash on its balance sheet and consistently negative EBITDA its auditors cited a “going concern” risk in its most recent 10-Q despite the fact that it has no debt. Now obviously the company could fund itself indefinitely if it stopped growing, but that makes no sense. Management is now looking to secure a credit line secured by receivables to fund its growth. A strong fourth quarter, as we expect, should give its bankers more confidence. The accounts receivable balance was \$9.1 mm at the end of September. Credit quality is apparently very good as the company recorded no bad debt expense for the first nine months of this year, and just \$282,000 last year. We believe that once the line is in place, it will alleviate its auditors concerns and lead to a removal of the going concern risk.

Our \$2 Price Target Equals 1x Revenue

Our detailed model is included at the end of this report. We forecast continued negative EBITDA into 2020, although the losses narrow rapidly in our model. This negative EBITDA is not unusual with the company’s digital advertising comps as we are presently in a land grab situation. Comps trade at an average of 1.4x revenue, versus just 0.4x for SITO. If the company’s enterprise business keeps growing as it has been, and the board’s rolodex yields sizable new customers, revenue should flow.

One of the things that perplexes us in this sector is that venture capital investors have been willing to invest hundreds of millions of dollars in capital into Silicon Valley location-based advertising startups who have little or no advertising industry connections. Perhaps the quant jockeys they are funding will devise a better mouse trap and the world will beat a path to their door. But you still need data history and SITO has over two years of it, as well as its own analytics team. Perhaps some of the private equity money investing in startups should look at acquiring SITO.

Our \$2 Target Equals 1x Our 2020 Revenue Estimate

Company Name	Fiscal Period	Price	Shares Outstanding	Market Value	Shares		Enterprise Value	Sales	EBIT	EBITDA	Enterprise Value/ Sales
					Outstanding	Diluted					
SITO Mobile	09/30/2018	0.90	25.44	22.18	25.37	17.57	43.33	-20.93	-19.47	0.4x	
SITO @ 2020E	12/31/20	0.90	25.44	22.18	25.37	17.6	55.5	-6.86	0.78	0.5x	
SITO @ target on 2020E	12/31/20	2.00	25.44	50.88	54.07	46.3	55.5	-6.86	0.78	1.0x	
AutoWeb Inc	12/31/2017	2.67	12.90	34.43	11.85	19.35	142.13	-1.00	6.65	0.1x	
Channeladvisor Corporation	12/31/2017	10.15	27.31	277.22	26.37	229.73	122.54	-16.28	-9.70	1.9x	
Fluent, Inc.	12/31/2017	3.50	75.29	263.52	55.65	305.85	220.27	-26.39	-12.20	1.4x	
Inuvo, Inc.	12/31/2017	1.18	32.44	38.27	28.16	39.24	79.55	-3.89	-0.86	0.5x	
IZEA Worldwide, Inc.	12/31/2017	1.04	12.07	12.56	5.67	15.00	24.44	-5.48	-3.96	0.6x	
Marchex, Inc. Class B	12/31/2017	2.70	40.33	122.53	42.71	43.93	90.29	-6.36	-3.57	0.5x	
Mobivity Holdings Corp.	12/31/2017	1.19	45.91	54.63	36.58	50.05	8.59	-5.78	-5.39	5.8x	
QuinStreet, Inc.	06/30/2018	15.61	49.29	769.42	49.87	698.90	404.36	15.64	23.40	1.7x	
Rubicon Project, Inc.	12/31/2017	3.67	50.75	186.26	48.87	89.42	155.55	-56.18	-19.96	0.6x	
Social Reality, Inc. Class A	12/31/2017	2.05	10.13	20.77	8.25	9.29	23.35	-3.00	-2.47	0.4x	
Telaria Inc	12/31/2017	2.80	49.57	138.80	50.51	68.23	43.80	-21.09	-16.51	1.6x	
Average										1.4x	

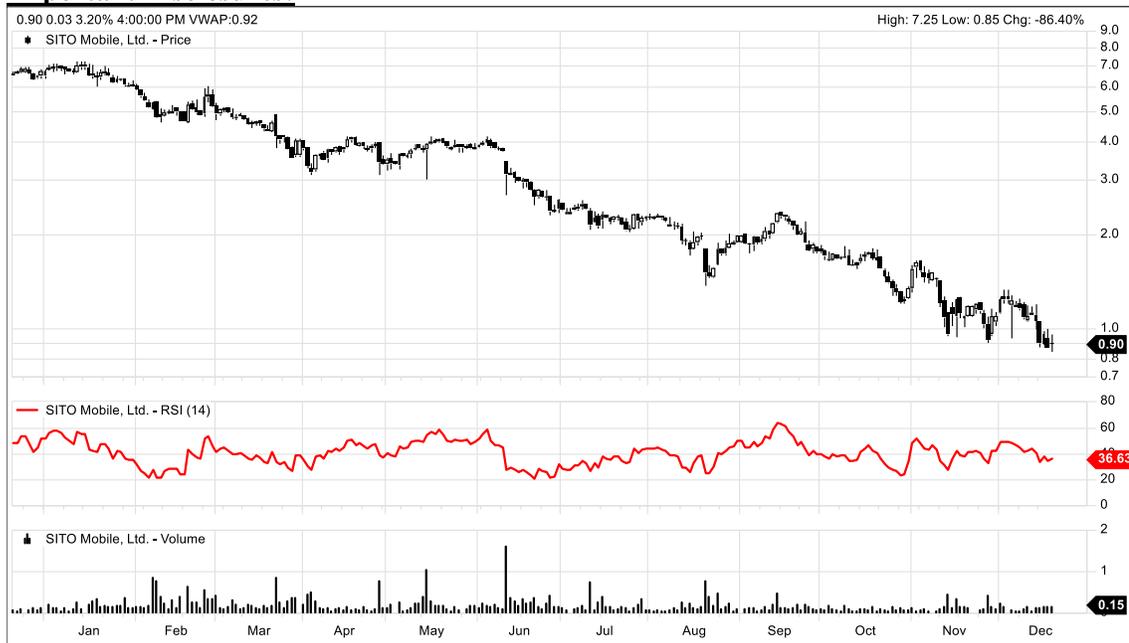
Source: Company reports and Dawson James estimates

SITO Mobile, Ltd. Income Forecast

Dollars in thousands, except per share data Fiscal years ended December 31		2018E					2019E					2020E				
	1QA	2QA	3QA	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	
Media Placement	11,144,652	8,428,564	9,056,963	11,756,852	40,387,031	11,144,652	10,114,277	10,868,356	14,108,222	46,235,507	13,373,582	12,137,132	13,042,027	16,929,867	55,482,608	
YoY growth	70.9%	-21.4%	-17.0%	-20.0%	-5.8%	0.0%	20.0%	20.0%	20.0%	14.5%	20.0%	20.0%	20.0%	20.0%	20.0%	
Seq growth	-24.2%	-24.4%	7.5%	29.8%	243.5%	-5.2%	-9.2%	7.5%	29.8%	227.7%	-5.2%	-9.2%	7.5%	29.8%	227.7%	
Licensing and royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
YoY growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Seq growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Revenue	11,144,652	8,428,564	9,056,963	11,756,852	40,387,031	11,144,652	10,114,277	10,868,356	14,108,222	46,235,507	13,373,582	12,137,132	13,042,027	16,929,867	55,482,608	
YoY growth	70.1%	-22.0%	-18.2%	-19.3%	-6.1%	0.0%	20.0%	20.0%	20.0%	14.5%	20.0%	20.0%	20.0%	20.0%	20.0%	
Seq growth	-23.5%	-24.4%	7.5%	29.8%	-	-5.2%	-9.2%	7.5%	29.8%	-	-5.2%	-9.2%	7.5%	29.8%	-	
Amortization in COGS	208,554	207,690	207,690	210,000	833,934	210,000	210,000	210,000	210,000	840,000	210,000	210,000	210,000	210,000	840,000	
Cash COGS	6,489,322	4,194,464	4,511,037	5,668,426	20,863,249	4,805,093	4,341,425	4,680,760	6,138,700	19,965,978	5,139,433	4,644,853	5,006,811	6,561,947	21,353,043	
Cost of Revenue	6,697,876	4,402,154	4,718,727	5,878,426	21,697,183	5,015,093	4,551,425	4,890,760	6,348,700	20,805,978	5,349,433	4,854,853	5,216,811	6,771,947	22,193,043	
Gross Margin	4,446,776	4,026,410	4,338,236	5,878,426	18,689,848	6,129,559	5,562,852	5,977,596	7,759,522	25,429,529	8,024,149	7,282,279	7,825,216	10,157,920	33,289,565	
As a percent of revenue	39.9%	47.8%	47.9%	50.0%	46.3%	55.0%	55.0%	55.0%	55.0%	55.0%	60.0%	60.0%	60.0%	60.0%	60.0%	
Stock com in S&M	581,533	470,550	451,271	500,000	2,003,354	500,000	500,000	500,000	500,000	2,000,000	500,000	500,000	500,000	500,000	2,000,000	
Cash S&M	4,678,718	5,042,271	4,424,398	4,790,583	18,935,970	4,515,093	4,051,425	4,390,760	5,566,536	18,523,814	4,849,433	4,354,853	4,716,811	5,425,453	19,346,550	
Sales and marketing	5,260,251	5,512,821	4,875,669	5,290,583	20,939,324	5,015,093	4,551,425	4,890,760	6,066,536	20,523,814	5,349,433	4,854,853	5,216,811	5,925,453	21,346,550	
As a percent of revenue	47.2%	65.4%	53.8%	45.0%	51.8%	45.0%	45.0%	45.0%	43.0%	44.4%	40.0%	40.0%	40.0%	35.0%	38.5%	
Stock comp in G&A	1,507,795	1,305,422	835,735	1,000,000	4,648,952	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000	
Cash G&A	3,441,588	3,118,208	3,645,499	3,500,000	13,705,295	3,500,000	3,500,000	3,500,000	3,500,000	14,000,000	3,500,000	3,500,000	3,500,000	3,500,000	14,000,000	
General and administrative	4,949,383	4,423,630	4,481,234	4,500,000	18,354,247	4,500,000	4,500,000	4,500,000	4,500,000	18,000,000	4,500,000	4,500,000	4,500,000	4,500,000	18,000,000	
As a percent of revenue	44.4%	52.5%	49.5%	38.3%	45.4%	40.4%	44.5%	41.4%	31.9%	38.9%	33.6%	37.1%	34.5%	26.6%	32.4%	
Legal settlement cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Depreciation and amortization	184,757	171,536	144,803	200,000	701,096	200,000	200,000	200,000	200,000	800,000	200,000	200,000	200,000	200,000	800,000	
Operating Income	(5,947,615)	(6,081,577)	(5,163,470)	(4,112,157)	(21,304,819)	(3,585,535)	(3,688,572)	(3,613,164)	(3,007,013)	(13,894,285)	(2,025,284)	(2,272,574)	(2,091,595)	(467,533)	(6,856,985)	
Operating margin	-53.4%	-72.2%	-57.0%	-35.0%	-52.8%	-32.2%	-36.5%	-33.2%	-21.3%	-30.1%	-15.1%	-18.7%	-16.0%	-2.8%	-12.4%	
Earnings from joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loss of revaluation of warrant	641,216	334,304	182,048	-	1,157,568	-	-	-	-	-	-	-	-	-	-	
Other	86,079	31,551	-	-	117,630	-	-	-	-	-	-	-	-	-	-	
Interest expense, net	3,974	1,919	2,404	-	8,297	-	-	-	-	-	-	-	-	-	-	
Pretax Income	(5,947,615)	(6,081,577)	(4,979,018)	(4,112,157)	(21,304,819)	(3,585,535)	(3,688,572)	(3,613,164)	(3,007,013)	(13,894,285)	(2,025,284)	(2,272,574)	(2,091,595)	(467,533)	(6,856,985)	
Taxes	(31,385)	(22,059)	(26,952)	-	(80,396)	-	-	-	-	-	-	-	-	-	-	
Net income - continuing ops	(5,979,000)	(6,103,636)	(5,005,970)	(4,112,157)	(21,385,215)	(3,585,535)	(3,688,572)	(3,613,164)	(3,007,013)	(13,894,285)	(2,025,284)	(2,272,574)	(2,091,595)	(467,533)	(6,856,985)	
Net income margin	-53.6%	-72.4%	-55.3%	-35.0%	-53.0%	-32.2%	-36.5%	-33.2%	-21.3%	-30.1%	-15.1%	-18.7%	-16.0%	-2.8%	-12.4%	
Diluted shares outstanding	20,681,047	25,128,681	25,374,545	22,009,540	23,298,453	22,009,540	22,009,540	22,009,540	22,009,540	22,009,540	22,009,540	22,009,540	22,009,540	22,009,540	22,009,540	
Seq change	(1,328,493.0)	4,447,634.0	245,864.0	-	1,288,913.3	-	-	-	-	-	-	-	-	-	-	
EPS diluted - continuing	(\$0.29)	(\$0.24)	(\$0.20)	(\$0.19)	(\$0.92)	(\$0.16)	(\$0.17)	(\$0.16)	(\$0.14)	(\$0.63)	(\$0.09)	(\$0.10)	(\$0.10)	(\$0.02)	(\$0.31)	
EBITDA																
Net income - cont ops.	(5,247,731)	(6,103,636)	(5,005,970)	(4,112,157)	(21,385,215)	(3,585,535)	(3,688,572)	(3,613,164)	(3,007,013)	(13,894,285)	(2,025,284)	(2,272,574)	(2,091,595)	(467,533)	(6,856,985)	
Addback:																
Amortization in COGS	208,554	207,690	207,690	210,000	833,934	210,000	210,000	210,000	210,000	840,000	210,000	210,000	210,000	210,000	840,000	
D&A	184,757	171,536	144,803	200,000	701,096	200,000	200,000	200,000	200,000	800,000	200,000	200,000	200,000	200,000	800,000	
Interest expense	3,974	(1,919)	(2,404)	-	8,297	-	-	-	-	-	-	-	-	-	-	
Income tax	(31,385)	22,059	26,952	-	(80,396)	-	-	-	-	-	-	-	-	-	-	
EBITDA	(4,881,831)	(5,704,270)	(4,628,929)	(3,702,157)	(19,922,284)	(3,175,535)	(3,278,572)	(3,203,164)	(2,597,013)	(12,254,285)	(1,615,284)	(1,862,574)	(1,681,595)	(57,533)	(5,216,985)	
Stock comp in S&M	581,533	470,550	451,271	500,000	2,003,354	500,000	500,000	500,000	500,000	2,000,000	500,000	500,000	500,000	500,000	2,000,000	
Stock comp in G&A	1,507,795	1,305,422	835,735	1,000,000	4,648,952	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000	1,000,000	1,000,000	1,000,000	4,000,000		
Gain on warrant	(641,216)	(334,304)	(182,048)	-	1,157,568	-	-	-	-	-	-	-	-	-	-	
Non-recur	124,938	253,673	279,124	-	657,735	-	-	-	-	-	-	-	-	-	-	
EBITDA	(3,308,781)	(4,008,929)	(3,244,847)	(2,202,157)	(11,454,675)	(1,675,535)	(1,778,572)	(1,703,164)	(1,097,013)	(6,254,285)	(115,284)	(362,574)	(181,595)	1,442,467	783,015	
EBITDA margin	-29.7%	-47.6%	-35.8%	-18.7%	-28.4%	-15.0%	-17.6%	-15.7%	-7.8%	-13.5%	-0.9%	-3.0%	-1.4%	8.5%	1.4%	

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 – December 21, 2018 – Price Target \$2.00

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VALUATION

Our \$2.00 price target is based on a multiple of 1.0x our 2020 revenue estimate.

RISK FACTORS

1. SITO has a going concern warning in its most recent 10Q. As we discuss in this report, the current capital issue threatens its ability to grow, rather than insolvency. Management is working on a credit line secured by receivables, but if it cannot find additional sources of capital, growth may be a challenge.
2. SITO shares are relatively illiquid and their trading history has shown a range of volatility with the shares trading down even after fundamental events which appear positive. This could occur in the future.
3. SITO faces potential competition from industry giants such as Google and Facebook, and from over a dozen well-funded Silicon Valley companies. Should one or more of these companies devise a superior solution, SITO would face significant challenges.

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)	42	89%	10	24%
Market Perform (Neutral)	5	11%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	47	100%	10	21%

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.