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Pareteum (TEUM)
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BUY
Artilium and iPass in the fold, Devicescape next
Pareteum provides mobility cloud platform and software solutions
Investment Highlights

1) Pareteum reported very positive financial results for their Q1/2019 (March) quarter earlier this month, including revenues of \$23.0 million, up from \$4.1 million in the prior year, and non-GAAP net income of \$2.7 million or \$0.02 per share, as compared to a net loss of \$1.0 million or (\$0.01) per share. Results in the first quarter, the first following the completion of recent Artilium and iPass acquisitions, were boosted by \$5.0 million in revenues from Artilium and \$3.7 million in revenues from iPass, which was in-house for roughly one-half of the first quarter. Overall, same unit revenues grew a healthy 33% year-over-year, driven by implementation of the Company's large 36-month backlog and new clients such as Citrix Systems (CTXS, Not Rated). Gross margins were 56% during Q1/19, below the 71% margins achieved one year ago, as the Company endeavors to integrate its two new acquisitions. Other overhead expenses (including non-cash acquisition-related costs) increased to \$18.3 million in Q1/19 from \$4.8 million the prior year. Operating cash burn was approximately \$5.3 million for Pareteum in the first quarter, although the Company was able to increase its cash position to \$10.7 million at the end of the quarter from \$6.1 million at the start of the year, due primarily to the draw-down of \$25 million from a new \$50 million credit line with Post Road Group, which was used to finance the iPass deal among other uses.

2) Concurrently with the first quarter earnings report, the Company provided revenue and income guidance for 2019E as a whole, including revenues in the range of \$115-\$125 million and positive adjusted EBITDA and cash flow for the year as a whole. Considering the recent first quarter results, we are estimating that Pareteum will post revenues of \$117.5 million for 2019E, with a net loss of \$9.1 million or (\$0.08) per share and non-GAAP net income of \$0.09 per share. Contributing to revenues this year are Legacy Pareteum mobile service revenues of \$66.0 million, up from \$27.5 million in 2018, Artilium revenues of \$21.0 million, and iPass sales of

Current Price \$4.43
Price Target \$5.00

Estimates	F2017A	F2018A	F2018E
Revenue(\$000s)	\$13,548	\$32,436	\$117,540 E
1Q March	2,795	4,113	23,040 A
2Q June	3,239	6,003	28,500 E
3Q September	3,499	8,008	31,500 E
4Q December	4,015	14,312	34,500 E

EPS (non-GAAP)	(\$0.84)	(\$0.20)	\$0.09 E
1Q March	(0.14)	(0.04)	0.02 A
2Q June	(0.10)	0.03	0.01 E
3Q September	(0.16)	(0.07)	0.02 E
4Q December	(0.44)	(0.12)	0.03 E
P/E (x)	N/A	N/A	52.0 X

EBITDA/Share	\$0.13	\$0.00	\$0.02
EV/EBITDA (x)	34.8	N/A	N/A X

Stock Data	
52-Week Range	\$1.45-\$5.93
Shares Outstanding (mil.)	110.4
Market Capitalization (mil.)	\$489.1
Enterprise Value (mil.)	\$500.3
Debt to Capital (3/19)	12.2%
Book Value/Share (3/19)	\$1.48
Price/Book	3.0 X
Average Trading Volume (3-month) Mill	4.30
Insider Ownership	7.3%
Institutional Ownership	22.2%
Short interest (mil.)	17.0
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:
 Update - September 22, 2017 - Buy - Target \$2.10
 (from Target of \$2.25 or \$56.25 after 1-25 reverse split)
 Update - BUY - April 4, 2018 - Target increased \$3.10
 Update - BUY - October 25, 2018 - Target increased \$5

Please find Important Disclosures beginning on Page 5.

\$30.5 million for about 10½ months of operations within Pareteum. We are also estimating that gross margins will improve slightly on a quarterly basis as the 2019E year progresses, reaching 56.0% by the last quarter, and that other overhead expenses on a quarterly basis will rise moderately from first quarter amounts to equal \$68.6 million for the year. In addition to contributions from Artilium and iPass, growth this year for Pareteum is expected to come from new contracts and contract extensions, particularly in new non-European markets, bringing the Company's revenue reliance on the EU (primarily just a few markets) to 66% for 2019E, down from 76% in 2018. So far in 2019E, Pareteum has gotten off to a strong start, boosting its 36-month contract backlog to \$938 million at March 31 from \$615 million at the start of the year, and adding \$70 million in new contracts in the month of April.

3) Earlier this month Pareteum announced an additional acquisition, San Francisco-based Devicescape. Devicescape's Curated Virtual Network (CVN) is a software-based aggregation of pre-existing Wi-Fi access points located around the world which can trigger presence alerts when user devices enter venues. This capability allows Pareteum customers to deliver location-specific mobile engagements such as in-application advertising, coupons, or reminders as well as facilitating the collection of unique and highly valuable first-party location data. Devicescape also brings 33 global patents and current CEO Dave Fraser, CTO John Gordon and other engineering team members. The acquisition was completed for \$1.5 million in cash and 400,000 shares of stock and is expected to be immediately accretive on an income statement basis. In the investor relations area, Pareteum is set to hold its "Pareteum Power" analyst day next week (5/28) in New York, which is expected to increase the Company's increasingly positive exposure to institutional investors and analysts.

Conclusion/Stock Valuation

With a new, experienced management team, two recent acquisitions in-hand and another just recently announced, growing revenues, profitable operations on a non-GAAP basis, an increased backlog stressing recurring revenue and higher-margin contracts, an improved balance sheet and successful cost-reduction program, long-term investors have much to like about Pareteum, while short-term investors can point to upcoming strong quarterly results. All-in-all, though, we are maintaining our BUY rating on Pareteum and our 12-18-month price target of \$5.00 per share, even as these shares approach our most recent target. (For a more complete analysis of our stock valuation methodology on TEUM shares please refer to our Company Update on TEUM dated November 8, 2018).

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by Pareteum with other companies in the industry, we believe an investment in TEUM involves the following risks:

- **Reliance on key management** – At present, TEUM relies on several key members of its management team who have been in key executive positions for an extended period of time. Should one or more of these key executives leave the Company, TEUM could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on partnerships** – To date, TEUM has signed a number of distribution and joint venture partnerships for its technologies and services. Thus, in the future certain factors related to sales and new product development may be determined by third parties and out of the control of Company management.
- **Limited stock liquidity** – Trading volume in TEUM stock is comparatively light and these shares have a relatively limited history of trading on major US stock exchanges compared with other technology

stocks. As such, news regarding TEUM, its target market, partners and/or competitors could lead to significant volatility in the stock price.

- **Competitive Markets** – The Company and its partners compete in its target mobile telecom services market with a number of companies, many of which are considerably larger than the Company. There can be no assurance that the Company and its partners will be able to successfully compete and launch new products into these competitive markets in the future.
- **Regulatory risks** – TEUM and its partners are subject to regulatory review for its ongoing service and new market development activities, both in the US and internationally. Any negative correspondence from US or other regulatory agencies could have an adverse effect on the ongoing operations of the Company.
- **Lack of historic profitability** - TEUM has not achieved GAAP operating profitability on a quarterly basis recently, and according to our forecasts is not expected to do so in the near future. Although the Company maintains adequate cash reserves at the present time, there can be no assurance the Company will not need to raise additional working capital in the future should operating losses resume.
- **Need to defend patents and other intellectual property** – TEUM currently holds a number of US and International patents on its services and related technologies, some of which expire in the near future. The Company may be required to defend its patents in the US and overseas in the future, and there can be no assurance these defenses will be successful.
- **Need to integrate acquisitions and mergers** – TEUM has completed several major acquisition/mergers in recent months, and the Company’s management team will need to successfully integrate these new companies into their ongoing operations. There can be no assurance that these integrations will proceed without some type of difficulties or delays to ongoing operations of the Company.

Pareteum
Consolidated Statements of Operations and Comprehensive Loss
 (In 000s, except per share data)

FY/ December	2011	2012	2013	2014	2015	2016	2017	2018	1Q19	2Q19E	3Q19E	4Q19E	2019E
									March	June	Sept	Dec	
Revenues	\$32,233	\$29,202	\$19,452	\$20,356	\$31,015	\$12,856	\$13,548	\$32,436	\$23,040	\$28,500	\$31,500	\$34,500	\$117,540
Cost of service	28,723	23,003	9,389	6,689	5,926	3,659	3,684	10,330	10,068	13,100	14,200	15,200	52,568
Gross Profit	3,510	6,199	10,063	13,668	25,089	9,197	9,864	22,106	12,972	15,400	17,300	19,300	64,972
Operating Expenses:													
Product development		6,804	6,091	7,229	4,543	3,544	1,480	3,093	2,198	2,800	3,000	3,200	11,198
Sales and marketing		3,707	3,139	2,394	2,634	1,341	1,575	3,161	2,565	3,000	3,200	3,400	12,165
General and administrative		11,492	15,063	12,603	11,650	11,708	10,097	17,809	7,614	8,000	8,300	8,600	32,514
Depreciation and amortization		5,710	6,601	8,220	6,624	4,247	4,533	5,427	2,843	3,200	3,300	3,400	12,743
Total operating expenses	29,186	27,713	30,894	30,445	25,451	20,839	17,685	29,490	15,221	17,000	17,800	18,600	68,621
Income (loss) from operations	(25,676)	(21,514)	(20,832)	(16,777)	(362)	(11,642)	(7,821)	(7,384)	(2,249)	(1,600)	(500)	700	(3,649)
Other Income													
Interest income	107	248	104	128	106	112	172	185	102	100	100	100	402
Interest expense	(201)	(1,870)	(3,135)	(5,176)	(1,488)	(1,228)	(5,063)	(493)	(621)	(650)	(650)	(650)	(2,571)
Other expense (gain)	(164)	704	(843)	(3,216)	(3,279)	(17,945)	(864)	(5,426)	(3,177)	(100)	(200)	(300)	(3,777)
Income (loss) before tax	(25,935)	(22,432)	(24,705)	(25,042)	(5,023)	(30,703)	(13,576)	(13,118)	(5,946)	(2,250)	(1,250)	(150)	(9,596)
Provision for income taxes	0	289	(200)	217	(17)	38	107	(144)	(167)	(100)	(100)	(100)	(467)
Net income (loss)	(25,935)	(22,721)	(24,505)	(25,259)	(5,006)	(30,741)	(13,683)	(12,975)	(5,779)	(2,150)	(1,150)	(50)	(9,129)
Basic income per share	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.84)	(\$0.20)	(\$0.06)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.08)
Diluted income per share	(\$6.21)	(\$5.19)	(\$5.05)	(\$3.70)	(\$0.79)	(\$4.67)	(\$0.84)	(\$0.20)	(\$0.06)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.08)
Basic shares outstanding	4,173	4,453	5,050	5,908	6,328	6,739	16,338	64,549	103,566	112,000	114,000	116,000	111,400
Diluted shares outstanding	4,173	4,453	5,050	5,908	6,328	6,739	16,338	64,549	103,566	112,000	114,000	116,000	111,400
Key ratios:													
Revenue growth	-13.3%	-9.4%	-33.4%	4.7%	52.4%	-58.6%	5.4%	139.4%	460.2%	374.8%	293.4%	141.1%	262.4%
Gross margin	10.9%	21.2%	51.7%	67.1%	80.9%	71.5%	72.8%	68.2%	56.3%	54.0%	55.0%	56.0%	55.3%
S G & A/sales		52.0%	93.6%	73.7%	46.1%	101.5%	86.2%	64.7%	44.2%	38.6%	36.5%	34.8%	38.0%
Depreciation, amort, non-cash comp		\$12,544	\$15,365	\$12,615	\$13,000	\$13,011	\$9,951	\$13,110	\$7,404	\$4,000	\$4,000	\$4,000	\$19,404
Operating margin	-79.7%	-73.7%	-107.1%	-82.4%	-1.2%	-90.6%	-57.7%	-22.8%	-9.8%	-5.6%	-1.6%	2.0%	-3.1%
Cash Flow/share	(\$6.21)	(\$2.29)	(\$1.81)	(\$2.14)	\$1.26	(\$2.63)	(\$0.23)	\$0.002	\$0.05	\$0.02	\$0.03	\$0.04	\$0.13
EBITDA/share	(\$6.15)	(\$2.01)	(\$1.08)	(\$0.70)	\$2.00	\$0.20	\$0.13	\$0.002	\$0.05	\$0.02	\$0.03	\$0.04	\$0.15
Non-GAAP EPS									\$0.02	\$0.01	\$0.02	\$0.03	\$0.09

Balance Sheets

	(\$000s)	
	12/31/18	3/31/19
Assets:		
Cash and equivalents	\$6,052	\$10,699
Restricted cash	431	705
Accounts receivables, net	15,362	28,645
Prepaid expenses & other current	2,084	3,634
Total current	23,928	43,682
Other long term assets	45	3,712
Note receivable	1,082	3,763
Property and equipment	4,553	5,184
Intangible assets and goodwill	131,432	180,605
TOTAL ASSETS	\$161,041	\$236,947

Liabilities:

Accounts payable and customer deposits	\$10,338	\$25,080
Net billings in excess of revenues	928	1,616
Accrued expenses and other payables	7,952	12,567
Promissory notes	788	516
Total current	20,006	39,779
Senior secured debt		21,807
Lease liabilities		3,142
Other long-term liabilities	213	80
Deferred tax liabilities	8,416	8,191
Related party loan	342	342
TOTAL LIABILITIES	28,977	73,341
Stockholders' equity	132,065	163,606
TOTAL LIAB & EQ	\$161,041	\$236,947

Quarterly Earnings Comparisons

	March	June	Sept	Dec	Total
	Revenues (in \$Mill)				
2016	3,274	3,267	3,171	3,144	12,856
2017	2,795	3,239	3,499	4,015	13,548
2018	4,113	6,003	8,008	14,312	32,436
2019E	23,040	28,500	31,500	34,500	117,540
Earnings per Share					
2016	(0.66)	(0.43)	(0.08)	(3.50)	(4.67)
2017	(0.14)	(0.10)	(0.16)	(0.44)	(0.84)
2018	(0.04)	0.03	(0.07)	(0.12)	(0.20)
2019E	(0.06)	(0.02)	(0.01)	(0.00)	(0.08)

Revenue Breakdown (\$000s)

	2017	2018	2019E
	By Geography		
Europe	\$12,429	\$24,600	\$77,540
Rest of World	1,119	7,835	40,000
Total	\$13,548	\$32,436	\$117,540
By Subsidiary/Acquisition			
Legacy Pareteum	\$13,548	\$27,264	\$66,000
Artillium	0	5,172	21,000
iPass	0	0	30,540
Total	\$13,548	\$32,436	\$117,540
By Business Segment			
Monthly Services	\$12,540	\$28,468	\$111,000
Installation and Software Development	1,007	3,968	6,540
Total	\$13,548	\$32,436	\$117,540

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

- Updated – Buy – September 22, 2017 – Price Target \$2.10 (from Price Target of \$2.25 or \$56.25 after 1-25 reverse split)
- Update – BUY – April 4, 2018 – Price Target increased to \$3.10
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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	37	86%	10	27%
Market Perform (Neutral)	6	14%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	10	23%

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