



Net Element, Inc.
(Nasdaq CM: NETE, Target Price: \$25.00)

Net Element, Inc. (Nasdaq CM: NETE, "Net Element") is a global financial technology and value-added solutions company that supports payment technology solutions, online payments and value-added transactional services in emerging countries and in the United States. The company is headquartered in Miami Beach, Florida.

Investment Highlights

We are updating coverage of Net Element following multiple company announcements since our last note, including updates on company transaction volume, the launch of the company's Netevia platform, and a deal in which the company acquired a transactional services portfolio from partner Universal Payment Systems ("UPS"), a Garden Grove, CA-based provider of bankcard payment processing services and value added solutions. Highlights of the recent events are as follows:

- *Net Element acquires transactional services assets from UPS.* NETE announced that had acquired certain transactional services assets from partner UPS on July 31, 2018, for \$2.7mn.
- *Deal expected to add \$5mn+ in gross profits.* Net Element management stated that the deal, which was executed through its Unified Payments subsidiary, is expected to add over \$5mn in gross profits over the next four years, with continued profit contribution thereafter.
- *Transaction dollar volume rises by 37% in 1H18.* Net Element reported that transaction dollars processed on its platform increased by 37% in the first half of the year to reach \$1.62 billion, versus \$1.18 billion the first half of 2017.
- *The total number of transactions processed on Net Element's platform also increased robustly.* The company processed 50.2mn transactions in 1H18, up more than 40% from 35.7mn processed in the first half of 2017, according to the company.
- *On June 12, 2018, Net Element announced that it had extended the capabilities of its new multi-channel payments platform for small and medium-sized businesses, Netevia, to include a smart solution for enabling secure business-to-business (B2B) vendor payments.* According to the company statement, Statista's 2017 B2B Ecommerce report estimates that global B2B sales were \$7.7 trillion. Net Element management believes it is positioned to compete in this market as the vendor payment solution operates via a web-friendly and mobile platform which can work with existing accounting systems and does not require complex integration.

No change to target following results

The price target remains unchanged for Net Element following recent announcements. NETE's announcements suggest the

company continued to identify growth initiatives, as evidenced by growth in transaction volume, new product enhancements, and the UPS deal announcement. We see the company as a high risk, high growth company in the mobile electronics space. We would look to re-evaluate the target as the company updates investors on its progress and clarifies expectations for blockchain in 2018-2019.

Stock Details (8/1/18)

Nasdaq CM:	NETE
Sector / Industry	Financial Tech / Mobile Payments
Price target	\$25.00
Recent share price	\$7.07
Shares o/s (mn)	3.9
Market cap (in \$mn)	27.6
52-week high/low	\$33.51 / 2.60

Source: Thomson Reuters, SeeThruEquity Research

Key Financial (\$mn, unless specified)

	FY16A	FY17A	FY18E
Revenues	54.2	60.1	72.1
EBITDA	(8.7)	(6.1)	(4.8)
Operating Inc. (Loss)	(8.8)	(8.6)	(7.2)
Net Income	(13.5)	(10.0)	(8.4)
EPS (\$)	(10.33)	(5.04)	(2.13)

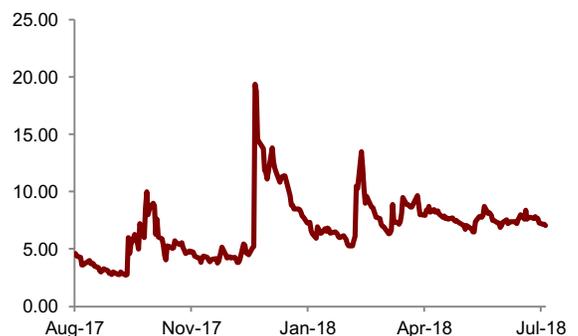
Source: SeeThruEquity Research

Key Ratios

	FY16A	FY17A	FY18E
Operating Margin (%)	(16.3)	(14.3)	(10.0)
EBITDA margin (%)	(16.0)	(10.1)	(6.7)
Net margin (%)	(24.8)	(16.7)	(11.7)
P/Revenue (x)	0.5	0.5	0.4
EV/EBITDA (x)	NM	NM	NM
EV/Revenue (x)	0.5	0.4	0.3

Source: SeeThruEquity Research

Share Performance, LTM



Source: Thomson Reuters

Net Element to acquire cash flow generating transactional services portfolio from Universal Payments Solutions

- **NETE acquires cash flow generating assets from UPS.** On July 31, 2018, Net Element announced that the company was acquiring a transactional services portfolio from partner Universal Payment Systems (“UPS”). Based in Garden Grove, CA, UPS provides bankcard payment processing services and value added solutions in the United States.
- **Deal expected to enhance margins, add \$5mn in gross profit over next four years.** Net Element characterized the deal as the acquisition of recurring cash flow assets, and management stated that the deal is being executed through its Unified Payments subsidiary, which is part of the North American Transaction Solutions segment.
- According to the release, NETE expects the deal to add over \$5mn in gross profits over the next four years, with continued profit contribution thereafter. Management also expects the deal to improve gross margins, which were 14.7% in 2017 and 15.8% in 2016.
- Terms of the deal included a purchase of price of \$2.7mn.



Net Element reports 37% increase in transaction volume in 1H18

- **Transaction dollar volume reaches \$1.62 billion in 1H18.** On July 11, 2018, Net Element management provided an update to transaction volume processed on its platform during the first half of 2018. The company reported that transaction dollars processed on its platform increased by 37% in the first half of the year to reach \$1.62 billion, versus \$1.18 billion the first half of 2017.
- **North American Transactions drives growth.** According to the release, Net Element’s subsidiary Unified Payments, which enables cashless transactions for small and medium sized businesses in the United States, was a significant contributor to transaction volume growth. Indeed, NETE’s North America Transaction Solutions segment experienced the largest growth increase, rising by 40% to \$1.4 billion in transaction volume from \$1 billion in the year-ago period. Net Element reported that its International Transactions Solutions segment exhibited increased transaction volume of 20% to \$211mn versus \$176mn in 1H17.
- **Transactions process on platform increase by 40% YoY.** Net Element processed 50.2mn transactions in 1H18, up more than 40% from 35.7mn processed in the first half of 2017, according to the company. The number of transactions processed in North America grew by 41% to 28.1mn from 20mn in 1H17. According to the company’s release, the number of transactions processed in the International Transactions Solutions segment in the first half of the year increased by 40% to 21mn, versus 15mn in 1H17.
- We have included detailed segment results in the following table:

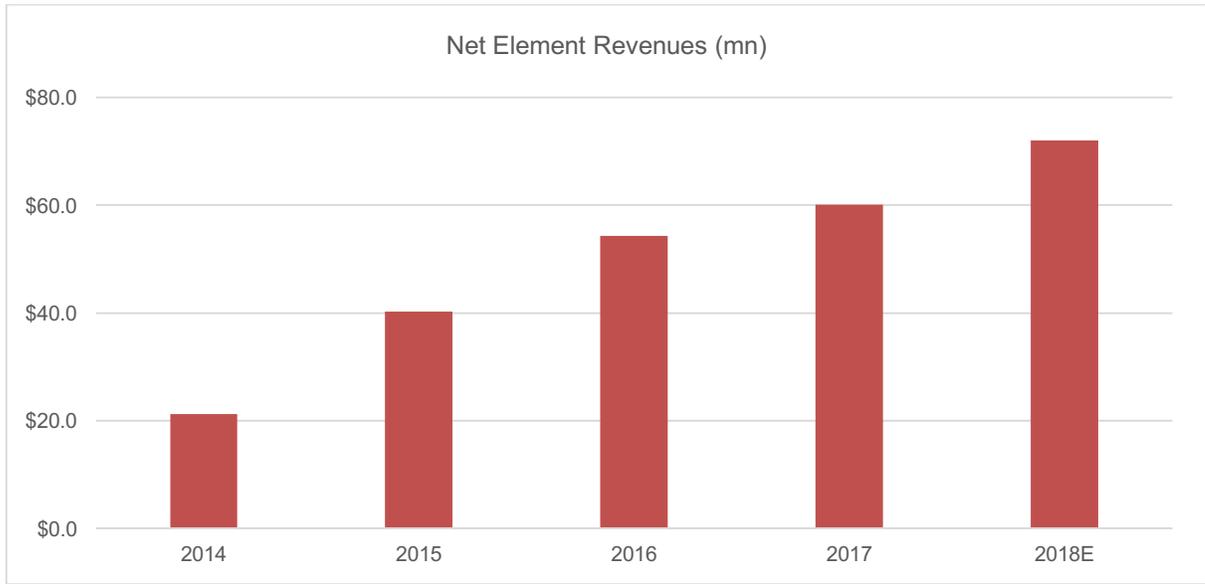
NETE Transactions	GTV (mn\$) 1H18	1H18 Mix %	GTV (mn\$) 1H17	YoY Change %
NA Transaction Solutions	\$1,409	87.0%	\$1,004	40.3%
Intl Transaction Solutions	\$211	13.0%	\$176	19.9%
Total	\$1,620	100.0%	\$1,180	37.3%

Source: Company release

Price target unchanged at this time

- The price target of \$25.00 remains unchanged at this time. We continue to see NETE as an intriguing high risk / high reward growth company in the financial technology space.
- If achieved, the price target of \$25.00 would represent an enterprise value of 1.3x 2018E revenues of \$72.1mn.

- We would look to revisit the target following further details on the potential impact of the company's blockchain initiatives, guidance for the full year 2018E, or evidence of NETE approaching recurring free cash flow breakeven – any of which may potentially justify a narrowing valuation gap versus peers in the industry.
- Net Element's business offers scale and growth potential from its multi-channel digital payment and transaction processing technologies, which supports more than 20mn e-commerce customers and more than \$60mn in annual company revenues in 2017. We note that Net Element's platform processed \$1.6 billion in gross transaction value in 1H18, and revenues at NETE have increased from \$21.2mn in 2014, when we initiated coverage, to \$60.1mn in 2017, as illustrated below.



- We continue to see NETE as an intriguing high risk / high reward growth company in the financial technology space. We would look to revisit the target following further details on the potential impact of the blockchain initiative on company-specific growth, guidance for the full year 2018E, or evidence of NETE approaching recurring free cash flow breakeven – any of which may potentially justify a narrowing valuation gap versus peers in the industry.

About Net Element, Inc.

Net Element, Inc. (NASDAQ: NETE) operates a payments-as-a-service transactional and value-added services platform for small to medium enterprise ("SME") in the U.S. and selected emerging markets. In the U.S., the Company aims to grow transactional revenue by innovating SME productivity services using blockchain technology solutions and Aptito, our cloud-based, restaurant and retail point-of-sale solution. Internationally, Net Element's strategy is to leverage its omni-channel platform to deliver flexible offerings to emerging markets with diverse banking, regulatory and demographic conditions. Net Element was ranked as one of the fastest growing companies in North America on Deloitte's 2017 Technology Fast 500™. In 2017 we were recognized by South Florida Business Journal as one of 2016's fastest-growing technology companies. www.NetElement.com.

Contact

Ajay Tandon
SeeThruEquity
www.seethruequity.com
(646) 495-0939
info@seethruequity.com

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