

# Zacks Small-Cap Research

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## Net Element Inc.

(NETE-NASDAQ)

### 2018 Results Show Net Element Moves Closer to Breakeven

Using an industry average of EV/trailing GM of 11.3X the stock could be worth \$28.45 per share by next year if NETE could reach profitability.

### OUTLOOK

Net Element is a growing software and services company for global online and mobile payments. It operates a merchant processor in the US with an attractive merchant offering with its Aptito front-end solution and its Netivia payments platform, and an international payment processor, operating primarily in Russia. NETE has shown growth in the US and continues progress toward cash flow break even and profitability.

Current Price (04/03/19) \$6.06  
Valuation \$28.45

### SUMMARY DATA

52-Week High \$9.66  
52-Week Low \$3.77  
One-Year Return (%) -9.2  
Beta 0.9  
Average Daily Volume (sh) 43,719

Shares Outstanding (mil) 3.9  
Market Capitalization (\$mil) \$23  
Short Interest Ratio (days) 3.1  
Institutional Ownership (%) 9  
Insider Ownership (%) 19

Annual Cash Dividend \$0.00  
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates  
Sales (%) 35.2  
Earnings Per Share (%) N/A  
Dividend (%) N/A

P/E using TTM EPS N/M  
P/E using 2018 Estimate N/M  
P/E using 2019 Estimate N/M

### Risk Level

Type of Stock  
Industry

Above Average  
Small Blend  
Internet Commerce

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	13.6 A	16.1 A	14.9 A	15.5 A	60.1 A
2018	16.0 A	16.5 A	17.2 A	16.1 A	65.8 A
2019	16.0 E	17.1 E	18.2 E	18.3 E	69.5 E
2020					75.4 E

#### Earnings Per Share

(Non-GAAP EPS before non-recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	-\$1.15 A	-\$0.85 A	-\$0.84 A	-\$0.82 A	-\$3.57 A
2018	-\$0.40 A	-\$0.20 A	-\$0.19 A	-\$0.18 E	-\$0.98 E
2019	-\$0.18 E	-\$0.16 E	-\$0.11 E	-\$0.10 E	-\$0.54 E
2020					-\$0.27 E

Zacks Projected EPS Growth Rate - Next 5 Years % 10.0

## WHAT'S NEW

### 2018 Results

In 2018, Net Element continued to make progress toward its 2019 goal of cash flow breakeven, followed by profitability. For 2018, revenues grew 10% but more importantly losses were almost halved. On a non-GAAP basis, the net loss was \$3.8 million in 2018 compared to a loss of \$7.0 million in 2017. Each year the losses have been declining and we expect with revenue growth, economies of scale, and the company's efforts in improving margins, 2019 operations will again cut those losses. Most impressively was management's ability to keep the share count flat all calendar year despite the average shares outstanding being up 97% year over year. We expect it should be able to achieve its plan to fund the company with current credit facilities through the next twelve months. If Net Element does reach cash flow breakeven and starts to pay down debt, we imagine the stock price will also appreciate.

Total revenues for Q4 increased 4.1% year over year to \$16.1 million from \$15.5 million. All of the growth was organic. North America grew 12.8% to \$15.2 million from \$13.3 million a year ago. The international segment declined 53.8% in the quarter from a year ago to \$0.7 million, and was down \$717,000 sequentially from Q3. The decline in international revenues was due to the decision to exist the mobile payment market in Russia and the loss of legacy clients. The company has re-boarded new business and expects international revenues to begin to grow sequentially. New revenues in international are now primarily from companies headquartered outside of Russia doing cross border transactions. Net Element provides them with multi-currency payments and fully integrated solutions to their websites, and in some cases omni-channel or multi-channel processing as well.

Total gross margin in the quarter increased to 15.4% from 11.4% a year ago. Margins for North America increased significantly to 14.5% from 10.3% last year, while international margins increased to 29.8% versus 18.4% as cost savings from the consolidation of Russian operations bore fruit. North American margins benefited from the processing of transactions utilizing the company's own self-designated BIN and further acceptance of value-added services by the merchant customers.

Operating expenses were \$3.6 million versus \$5.5 million last year with the majority decline being \$2.1 million less in stock-based compensation and \$400,000 less in G&A. Overall this resulted in the operating loss declining to \$1.2 million versus \$3.7 a year ago.

Total other expense was virtually flat with last year.

The net loss declined to \$1.5 million compared to a loss of \$4.1 million a year ago.

This quarter there were 3.9 million average primary shares outstanding, while last year there were only 2.8 million, or 37% more than last year. Management has been able to keep the primary share count flat this entire year. As of March 29, 2019, that number was still 3.9 million shares.

The adjusted non-GAAP net loss, taking out stock-based compensation and one-time charges, was \$701,000 million versus \$2.3 million last year. The adjusted non-GAAP loss per share, declined **to a loss of \$0.18 per share versus a loss of \$0.82 per share.**

Net Element now has \$1.6 million in cash, negative working capital of \$1.5 million and \$6.8 million in debt. In its 10K filing, the company indicated it needs \$3.3 million in cash to fund the next twelve months, which it plans to do with the debt facilities it already has in place.

## Events In the Quarter

On December 27, 2018, Net Element acquired cash flow assets from Argus Merchant Services and Treasury Payments for \$1.42 million, which are expected to generate well over \$4 million in gross profits over the next four years and expected to continue generating profits thereafter. In addition, the total billing commitment by Argus over the next 5 years is expected to generate over \$19 million in gross margin for the Net Element.

On October 2<sup>nd</sup>, Net Element announced a memo of understanding with Sputnik Bank of Russia to launch a new business offering third party processing to other banks in Russia. In return for Net Element's expertise, Sputnik will give Net Element 25% of its outstanding stock and potentially, a per transaction fee. Sputnik is expected to pay for all the expenses for the venture. This agreement will not be finalized until it passes regulatory approval in Russia. The company expects to have a product available for sale within 12 months of the deal signing.

On October 22, Net Element announced the launch of a secure and compliant payment processing offering aimed at the legal cannabis industry, also called cannabidiol (CBD.) Payment processing and compliance for the legal cannabis industry has become increasingly complex; [Unified Payments](#) is addressing the challenges by offering a compliant, seamlessly integrated payment solution that makes it simple to transact. This market is slightly different as a vertical as the banks have to approve the payment processing. The company has already signed customers for this offering.

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## INVESTMENT THESIS

- Net Element is a growth company in the payments industry that should benefit from the adoption of mobile and online payments in the US, Russia, and Eastern Europe.
- Its award-winning Aptito and Netevia products provides differentiation and value-added services to its generic card processing business. This business should increase margins as well as aid sales efforts by improving price/performance and customer stickiness.
- The company believes its intrinsic value is its payment-processing portfolio and its objective is to grow that portfolio internally and through acquisition.
- The company's new venture with Sputnik Bank could prove very profitable as they plan to be the first bank to provide third party processing to smaller banks in Russia.
- The company's goal in 2019 is to reach cash flow breakeven and thereafter profitability. It was able to grow without addition equity dilution throughout 2018.
- We believe the company could grow revenues 6% to \$69.5 million in 2019. It is trading at an enterprise value of \$29 million or 0.4Xs enterprise value to forecasted 2019 sales.
- If NETE achieves our forecasts without further common stock dilution than that already predicted and no incremental debt, we believe its common stock could be worth \$28.45 per share by next year based on an industry average valuation of approximately 11.3xs enterprise value to gross margin if the company achieves breakeven EBITDA results.

## VALUATION

Using Net Element's peer group we find an average valuation of 11.3 times the enterprise value to trailing twelve-month (2018) gross margin. If we use that multiple and apply it Net Element's trailing 12-month gross margin of \$10.2 million, we see that the company could be worth a \$115 million enterprise value if it were profitable, or **\$28.45 per share**.

Another way to value the company is to compare it to the acquisition valuation used for its peer JetPay. In October, NCR made a cash tender offer of \$5.05 for each JetPay share represents a multiple of 2.9 times the 2018 consensus revenue forecast of \$63.1 million. Using that valuation metric NETE would be worth an enterprise value of \$191 million, a market value of \$186 million or **\$48.12 per share**.

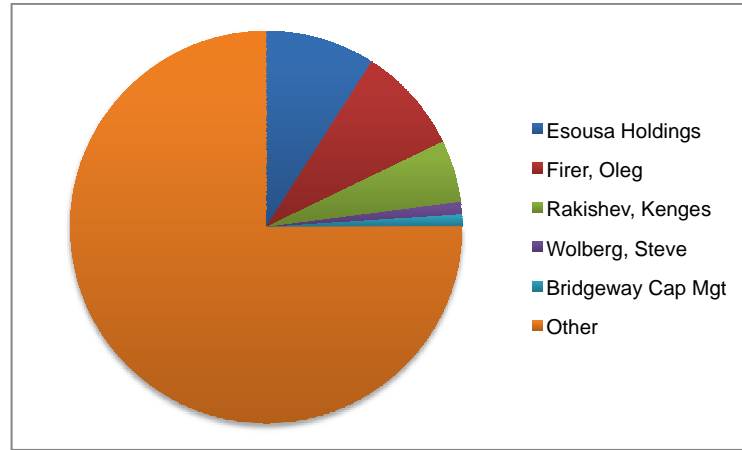
Company	Ticker	EBITDA	Gross Margin	%	Revenue 2019E	Revenue LTM	EBIDTA Margin	EV/19E Sales	EV/LTM Sales	EV/GM	EV/EBITDA	Included in Average?	Enterprise Value
Earthport	EPO.L	(8)	20	62%	NA	33	-26%	NA	10.2	16.5	-40.0	n	332
EVERTEC	EVTC	213	257	57%	470	454	47%	5.3	5.5	9.7	11.7	y	2,480
First Data*	FDC	3,080	5,670	65%	8,940	8,680	35%	5.0	5.2	7.9	14.6	y	44,980
Global Payments	GP.N	1,320	2,271	67%	4,460	3,370	39%	6.0	7.9	11.8	20.2	y	26,690
PayPal	PYPL	2,730	7,110	46%	17,980	15,450	18%	6.5	7.5	16.4	42.6	y	116,350
Payment Data Systems	PYDS	(2)	4	16%	29	25	-8%	1.4	1.6	9.7	-21.0	y	40
Total System Services	TSS	1,120	1,540	38%	4,070	4,030	28%	5.0	5.1	13.3	18.2	y	20,410
Worldpay	WP	1,895	3,925	100%	4,260	3,930	48%	9.9	10.7	10.7	22.2	y	42,090
<b>Average</b>				56%			30%	5.6	6.2	11.3	15.5		36,149

## RISKS

- The company is losing money and may not be able to reach profitability or positive cash flow. The company believes in spending to grow the business although its goal is to become cash flow positive some time in 2019.
- The company is involved in a number of lawsuits.
- The mobile and online payment market is still in its infancy and there is no assurance countries will adopt this method to pay for goods and services.
- The company is somewhat dependent on Russia and due to oil prices, political turmoil, and sanctions, and this could affect payment volumes and the ability to do business there.
- Future acquisitions may not be successfully integrated operationally or technologically. Purchased portfolios may not yield expected profits.
- The merchant acquirer market in the US is competitive and larger companies have an advantage due to economies of scale and access to capital.
- Operations in Russia and the United Federation and elsewhere internationally face considerable political risk and the company may be prohibited from certain financial transactions by government regulation and restrictions.
- Currency, particularly the ruble, has fluctuated dramatically and could affect reported earnings and operations.

- As a payment company the company is involved with blockchain. This can cause volatility in the stock as blockchain has often caused irrational exuberance among investor. It also draws added scrutiny by regulators.

## OWNERSHIP



## INCOME STATEMENT

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019E	Q2 2019E	Q3 2019E	Q4 2019E	2017	2018	2019E	2020E
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec				
North America Transaction	\$11.0	\$13.6	\$13.1	\$13.4	\$14.0	\$14.4	\$15.6	\$15.2	\$15.0	\$16.0	\$17.0	\$17.0	\$51.1	\$59.1	\$65.0	\$70.20
Yr-over-yr Growth	39.6%	30.8%	17.3%	5.9%	27.4%	5.9%	18.8%	12.8%	7.4%	11.0%	9.0%	12.1%	21.4%	15.6%	9.9%	8.0%
Cost of service	9.5	11.5	11.3	12.1	12.1	12.2	13.3	13.0	12.8	13.5	14.4	14.4	44.3	50.5	55.0	59.1
Gross margin	1.5	2.1	1.8	1.4	1.9	2.2	2.3	2.2	2.3	2.5	2.6	2.6	6.9	8.6	10.0	11.1
Gross margin %	13.7%	15.7%	14.1%	10.3%	13.6%	15.2%	14.8%	14.5%	15.0%	15.4%	15.5%	15.5%	13.4%	14.5%	15.4%	15.8%
International	2.6	2.5	1.8	2.0	2.0	2.0	1.7	0.9	0.9	1.1	1.2	1.3	8.9	6.6	4.5	5.2
Yr-over-yr Growth	-23.8%	-23.1%	-37.0%	-23.2%	-22.4%	-19.1%	-7.1%	-53.8%	-55.4%	-46.2%	-27.4%	39.0%	-26.6%	-25.5%	-32.3%	15.6%
International Cost of Service	2.0	1.8	1.5	1.6	1.6	1.6	1.3	0.7	0.6	0.8	0.8	0.9	7.0	5.1	3.2	3.5
Gross Margin	0.6	0.7	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.4	0.4	2.0	1.6	1.4	1.7
Gross margin %	23.0%	27.0%	16.9%	18.4%	22.9%	22.4%	22.9%	29.8%	30.0%	30.0%	30.0%	30.0%	21.9%	23.7%	30.0%	32.7%
<b>Total revenues</b>	<b>13.6</b>	<b>16.1</b>	<b>14.9</b>	<b>15.5</b>	<b>16.0</b>	<b>16.5</b>	<b>17.2</b>	<b>16.1</b>	<b>16.0</b>	<b>17.1</b>	<b>18.2</b>	<b>18.3</b>	<b>60.1</b>	<b>65.8</b>	<b>69.5</b>	<b>75.4</b>
Yr-to-yr Growth	20.4%	17.9%	6.4%	0.9%	17.8%	2.0%	15.7%	4.1%	0.1%	3.9%	5.6%	13.7%	10.6%	9.5%	5.6%	8.5%
<b>Costs and expenses:</b>																
Cost of revenues	11.5	13.3	12.8	13.7	13.6	13.8	14.6	13.6	13.4	14.3	15.2	15.3	51.2	55.6	58.2	62.6
Gross Margin	2.1	2.8	2.1	1.8	2.4	2.7	2.7	2.5	2.6	2.8	3.0	3.0	8.8	10.2	11.3	12.8
% of Sales	15.5%	17.5%	14.4%	11.4%	14.8%	16.1%	15.6%	15.4%	16.4%	16.3%	16.5%	16.5%	14.7%	15.5%	16.3%	16.9%
G&A	2.8	2.6	2.4	2.8	2.4	2.5	2.3	2.5	2.4	2.5	2.5	2.5	10.6	9.8	9.9	10.0
Stock-based compensation	0.6	0.1	0.1	2.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9	0.1	0.1	0.3
Provision for loan losses	0.3	0.9	0.3	(0.1)	0.1	0.9	0.6	0.5	0.1	0.1	0.1	0.1	1.3	2.1	0.4	0.4
Depreciation and amortization	0.7	0.6	0.6	0.7	0.7	0.7	0.5	0.6	0.6	0.6	0.6	0.6	2.5	2.5	2.5	2.5
Total operating expenses	4.4	4.2	3.4	5.5	3.4	4.1	3.4	3.6	3.2	3.2	3.2	3.2	17.4	14.5	12.9	13.2
<b>Loss from operations</b>	<b>(2.3)</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>(3.7)</b>	<b>(1.0)</b>	<b>(1.4)</b>	<b>(0.8)</b>	<b>(1.2)</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(8.6)</b>	<b>(4.3)</b>	<b>(1.6)</b>	<b>(0.4)</b>
Interest expense, net	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.2)	(0.8)	(0.8)	(0.8)
Other expense	(0.0)	(0.0)	(0.1)	(0.1)	(0.4)	0.7	0.0	0.4	0.0	0.0	0.0	0.0	(0.2)	0.8	0.0	0.0
One-time charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.6)	0.0	0.0	0.0	0.0	0.0	(0.6)	0.0	0.0
Total non-operating expenses	(0.3)	(0.4)	(0.4)	(0.4)	(0.6)	0.4	(0.2)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	1.4	(0.7)	(0.8)	(0.8)
Pretax operating income (loss)	(2.5)	(1.7)	(1.7)	(4.1)	(1.6)	(1.0)	(0.9)	(1.5)	(0.7)	(0.6)	(0.4)	(0.4)	(10.0)	(5.0)	(2.3)	(1.3)
Income tax provision	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Operating Loss</b>	<b>(2.5)</b>	<b>(1.7)</b>	<b>(1.7)</b>	<b>(4.1)</b>	<b>(1.6)</b>	<b>(1.0)</b>	<b>(0.9)</b>	<b>(1.5)</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(10.0)</b>	<b>(5.0)</b>	<b>(2.3)</b>	<b>(1.3)</b>
Minority interest	0.1	0.1	(0.0)	0.0	(0.0)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
<b>Net loss</b>	<b>(2.5)</b>	<b>(1.6)</b>	<b>(1.7)</b>	<b>(4.1)</b>	<b>(1.6)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>(1.5)</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(9.9)</b>	<b>(4.9)</b>	<b>(2.3)</b>	<b>(1.3)</b>
Foreign currency translation gain (loss)	0.0	(0.1)	(0.1)	0.2	0.0	0.0	(0.1)	0.4	0.0	0.0	0.0	0.0	(0.0)	0.3	0.0	0.0
Comprehensive loss	(2.5)	(1.8)	(1.6)	(4.3)	(1.6)	(0.9)	(0.8)	(1.9)	(0.7)	(0.6)	(0.4)	(0.4)	(10.0)	(4.6)	(2.3)	(1.3)
Earnings ex-one time charge	(2.5)	(1.6)	(1.7)	(4.4)	(1.6)	(0.9)	(0.9)	(0.7)	(0.7)	(0.6)	(0.4)	(0.4)	(10.0)	(4.0)	(2.2)	(1.3)
Stock-based compensation	0.6	0.1	0.1	2.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	2.9	0.2	0.1	0.2
Adjusted Non-GAAP Earnings	(1.9)	(1.5)	(1.6)	(2.3)	(1.5)	(0.8)	(0.9)	(0.7)	(0.7)	(0.6)	(0.4)	(0.4)	(7.0)	(3.8)	(2.1)	(1.0)
Yr-to-yr Growth	27.1%	29.3%	-1.2%	-7.3%	-19.2%	-49.1%	-44.2%	-69.6%	-55.2%	-20.2%	-53.5%	-45.3%	-11%	-46%	-45%	-50.9%
GAAP EPS	(\$1.50)	(\$1.01)	(\$0.90)	(\$1.51)	(\$0.42)	(\$0.23)	(\$0.23)	(\$0.39)	(\$0.18)	(\$0.16)	(\$0.11)	(\$0.10)	(\$5.04)	(\$1.28)	(\$0.60)	(\$0.32)
<b>Non-GAAP EPS</b>	<b>(\$1.15)</b>	<b>(\$0.85)</b>	<b>(\$0.84)</b>	<b>(\$0.82)</b>	<b>(\$0.40)</b>	<b>(\$0.20)</b>	<b>(\$0.23)</b>	<b>(\$0.18)</b>	<b>(\$0.18)</b>	<b>(\$0.16)</b>	<b>(\$0.11)</b>	<b>(\$0.10)</b>	<b>(\$3.57)</b>	<b>(\$0.98)</b>	<b>(\$0.54)</b>	<b>(\$0.27)</b>
Yr-to-yr Growth	-13%	-15%	-27%	-50%	-65%	-77%	-73%	-78%	-55%	-20%	-53%	-45%	-41.1%	-72.6%	-44.5%	-50.9%
Share outstanding	1.6	1.8	1.9	2.8	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	2.0	3.9	3.9	3.9
Yr-to-yr Growth	46%	52%	35%	84%	134%	118%	106%	37%	0%	0%	-1%	0%	50.7%	96.6%	-0.1%	0.0%
Fully diluted shares	1.9	2.0	2.2	3.8	4.8	4.8	4.9	4.8	4.8	4.8	4.8	4.8	2.2	4.8	4.8	4.8
Yr-to-yr Growth	48%	52%	41%	114%	156%	140%	120%	28%	0%	0%	-1%	0%	48.7%	119.3%	-0.1%	0.0%

## BALANCE SHEET

	Dec 31, 2018	Sept 30, 2018	Qtr-Qtr % Change	Dec 31, 2017	Yr- Yr % Change
<b>Current assets:</b>					
Cash	\$1,645,481	\$2,563,104	-36%	\$11,285,669	-85%
Accounts receivable, net	6,290,412	4,970,697	27%	5,472,856	15%
Prepaid expenses and other assets	1,749,221	1,679,092	4%	2,282,614	-23%
Total current assets	9,685,114	9,212,893	5%	19,041,139	-49%
Equipment, net	25,335	34,267	-26%	58,268	-57%
Intangible assets, net	6,441,743	5,354,237	20%	3,127,760	106%
Goodwill	9,007,752	9,643,752	-7%	9,643,752	-7%
Other long term	604,070	603,110	0%	460,511	31%
Total assets	25,764,014	24,848,259	4%	32,331,430	-20%
<b>Current liabilities:</b>					
Accounts payable	\$6,368,444	\$5,407,971	18%	\$6,785,459	-6%
Deferred revenue	1,495,849	1,173,802	27%	1,712,591	-13%
Accrued expenses	2,535,947	2,247,101	13%	3,674,430	-31%
Notes payable (current portion)	433,448	484,490	-11%	2,493,973	-83%
Due to related parties	387,814	441,606	-12%	0	NM
Total current liabilities	11,221,502	9,754,970	15%	14,666,453	-23%
Notes payable (non-current portion)	5,946,046	5,072,396	17%	4,521,449	32%
Total liabilities	17,167,548	14,827,366	16%	19,187,902	-11%
<b>STOCKHOLDERS' DEFICIT</b>					
Common stock	386	385	0%	385	0%
Paid in capital	183,246,232	183,223,732	0%	183,119,222	0%
Stock subscription receivable	-	-	0%	(50,585)	-100%
Accumulated other comp income (loss)	(2,232,163)	(2,315,394)	-4%	(2,530,238)	-12%
Accumulated deficit	(172,292,252)	(170,781,062)	1%	(167,356,070)	3%
Noncontrolling interest	(125,737)	(106,768)	18%	(39,186)	221%
Total stockholders' deficit	8,596,466	10,020,893	-14%	13,143,528	-35%
Total liabilities and stockholders' deficit	25,764,014	24,848,259	4%	32,331,430	-20%
Net Cash	1,645,481	2,563,104	-36%	11,285,669	-85%
Current and Quick Ratio	0.9	0.9	-9%	1.3	-34%
Working Capital	(1,536,388)	(542,077)	183%	4,374,686	-135%
Total Debt	6,767,308	5,998,492	13%	7,015,422	-4%
Debt/TA	26%	24%	9%	22%	21%
DSO	35.7	26.3	36%	32.2	11%

# CASH FLOWS

	Mar. 31, 2017 3 month	June 30, 2017 3 month	Sept 30, 2017 3 month	Dec. 31, 2017 3 month	YR 2017	Mar. 31, 2018 3 month	June 30, 2018 3 month	Sept 30, 2018 3 month	Dec. 31, 2018 3 month	YR 2018
<b>Cash flows from operating activities</b>										
Net loss	\$ (2,487,498)	\$ (1,640,339)	\$ (1,702,536)	\$ (4,083,112)	\$ (9,913,485)	\$ (1,610,847)	\$ (903,730)	\$ (910,412)	\$ (1,511,193)	\$ (4,936,182)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>										
Non controlling interest	(50,701)	(75,081)	32,607	(16,389)	(109,564)	27,553	(69,482)	(25,653)	(18,969)	(86,551)
Share based compensation	596,404	128,537	111,277	2,104,206	2,940,424	82,011	22,500	22,500	15,006	142,017
Deferred revenues	(445,953)	(470,945)	757,670	515,847	356,619	-	58,319	(594,360)	319,299	(216,742)
Net non cash items in other income	-	-	-	-	-	-	-	-	(1,202,201)	(1,202,201)
Impairment for goodwill	-	-	-	-	-	-	-	-	636,000	636,000
Depreciation and amortization	657,363	573,018	630,020	673,584	2,533,985	703,538	662,525	463,384	625,190	2,454,637
Non cash interest	46,135	48,113	4,526	16,028	114,802	16,759	18,437	13,804	24,442	73,442
(Recovery of ) provision for loan losses	-	192,895	(192,895)	-	-	-	-	-	16,238	16,238
<b>Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates</b>										
Account receivable	510,498	1,402,637	1,508,130	(418,840)	3,002,425	1,032,930	(461,525)	(191,804)	(1,883,356)	(1,503,755)
Deferred revenue	-	-	-	-	-	(535,748)	535,748	-	-	-
Prepaid expenses and other assets	(231,755)	516,416	(637,212)	(695,260)	(1,047,811)	(308,648)	(47,937)	814,391	(73,403)	384,403
Accounts payable and accrued expenses	449,284	(2,422,982)	(545,334)	(552,659)	(2,943,154)	-	-	-	-	-
Net cash (used in) provided by operating	(956,223)	(1,747,731)	(33,747)	(2,456,595)	(5,065,759)	(1,137,758)	(1,751,607)	(383,798)	5,671	(3,267,492)
<b>Cash flows from investing activities</b>										
Purchase of portfolio and client acquisition	(403,585)	(562,562)	(414,514)	(504,437)	(1,885,098)	(401,980)	(476,466)	(2,973,150)	(1,561,668)	(5,413,264)
Receipt of excess deposits	-	-	-	149,826	149,826	-	-	-	-	-
Purchase of fixed and other assets	355	180,068	(102,993)	(180,771)	(103,341)	(2,393)	12,291	(124,939)	110	(114,931)
Net cash used in investing activities	(403,230)	(382,494)	(517,507)	(535,382)	(1,838,613)	(404,373)	(464,175)	(3,098,089)	\$ (1,561,558)	(5,528,195)
<b>Cash flows from financing activities</b>										
Proceeds from indebtedness	92,000	3,206,792	(59,759)	439,791	3,678,824	-	-	-	2,131,500	2,131,500
Repayment of indebtedness	(92,680)	(532,238)	351,558	(725,420)	(998,780)	(515,834)	(522,831)	(419,871)	(1,326,598)	(2,785,134)
Cash received from issuance of shares and	1,437,132	-	(287,034)	13,734,337	14,884,435	-	-	-	-	-
Related party advances (payments)	57,159	(57,159)	77,587	(77,587)	-	(33,027)	67,954	(74,192)	39,265	-
Net cash provided by (used in) financing	1,493,611	2,617,395	82,352	13,371,121	17,564,479	(548,861)	(454,877)	(494,063)	\$ 844,167	(653,634)
Effect of exchange rate changes on cash	57,288	(25,972)	(11,812)	(40,403)	(20,899)	(3,720)	21,353	(2,597)	(49,435)	(34,399)
Net increase in cash	191,446	461,198	(480,714)	10,338,741	10,639,208	(2,094,712)	(2,649,306)	(3,978,547)	\$ (761,155)	(9,483,720)
Cash at beginning of period	621,635	813,081	1,274,279	922,102	1,094,063	11,733,271	9,638,559	6,989,253	\$ 3,010,706	11,733,271
Cash at end of period	813,081	1,274,279	922,102	11,260,843	11,733,271	9,638,559	6,989,253	3,010,706	\$ 2,249,551	2,249,551
<b>Cash paid during the period for:</b>										
Interest	166,394	150,438	398,231	279,041	1,074,820	226,479	217,753	201,678	127,827	773,737
Taxes	64,314	86,770	22,628	-	86,942	4,140	-	40,792	16,939	61,871
Operating cash flow	(1,684,250)	(1,243,802)	(359,331)	(789,836)	(4,077,219)	(780,986)	(211,431)	(1,030,737)	\$ (1,096,188)	(3,119,342)
Free cash flow	(2,087,480)	(1,626,296)	(876,838)	(1,325,218)	(5,915,832)	(1,185,359)	(675,606)	(4,128,826)	\$ (2,657,746)	(8,647,537)

# HISTORICAL STOCK PRICE





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