

Zacks Small-Cap Research

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Lisa Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Net Element Inc.

(NETE-NASDAQ)

Opportunities for Growth through Acquisition in Turbulent Times

Using an industry average of EV/trailing GM of 16.2X and discount NETE for losses, the stock could be worth \$13.80 per share.

OUTLOOK

Net Element provides software and services to merchants 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 Netevia payments platform, and an international payment processor, operating primarily in Russia. NETE will be greatly effected by the shut down of restaurants and storefronts and more than half of customers come from these industries. It is trading at an enterprise value of \$16.5 million or 0.3xs trailing revenues.

Current Price (04/10/20) \$1.84
Valuation \$13.80

SUMMARY DATA

52-Week High \$6.29
52-Week Low \$1.56
One-Year Return (%) -69.3
Beta 1.6
Average Daily Volume (sh) 58,530

Shares Outstanding (mil) 4.1
Market Capitalization (\$mil) \$7
Short Interest Ratio (days) 6.0
Institutional Ownership (%) 7
Insider Ownership (%) 19

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

5-Yr. Historical Growth Rates
Sales (%) 20.8
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/M
P/E using 2020 Estimate N/M
P/E using 2021 Estimate N/M

Risk Level

Type of Stock
Industry

High
Small Blend
Internet Commerce

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	16.0 A	16.5 A	17.2 A	16.1 A	65.8 A
2019	15.0 A	16.5 A	16.8 A	16.6 A	65.0 A
2020	13.0 E	10.6 E	13.1 E	17.2 E	53.9 E
2021					70.0 E

Earnings Per Share

(Non-GAAP EPS before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	-\$0.40 A	-\$0.23 A	-\$0.23 A	-\$0.22 A	-\$1.07 A
2019	-\$0.28 A	\$0.11 A	-\$0.24 A	-\$0.35 A	-\$0.76 A
2020	-\$0.48 E	-\$1.20 E	-\$0.57 E	-\$0.37 E	-\$2.38 E
2021					-\$0.75 E

Zacks Projected EPS Growth Rate - Next 5 Years % 5.0

WHAT'S NEW

While it could be doom and gloom at a payment processor with half its business in restaurants or the NY/NJ area, Net Element is moving quickly to seek opportunities to buy portfolios cheaply and gain relief from the federal government. As a financial services firm, Net Element provides a critical service and the company continues to operate as usual with all its offices open both here and in Russia. While this business could easily have employees work from home, it hasn't found the need. When the situation returns to normal, they will be moving to its larger space in the same building, which will allow for better storage and personnel expansion.

While investors might expect revenues to be down as much as 50%, we do not expect business is that bad as some customers continue to operate while others in the online space are benefitting. In international all the company's sales are to online customers and business is growing. International is also benefitting from a reduction on the credit card exchange fees in Russia from 1.7% to 1%, which should improve margins.

We believe the company, which has financing partners specifically for portfolio acquisitions, is already talking to desperate sellers and could announce a transaction as soon as this quarter. Net Element, which likes to grow through portfolio acquisition, has been stymied in recent years, as prices have been high as everyone chases yield. Current pricing may be more reasonable. Management reminds us of its great success from buying distressed assets in the 2008 downturn and is eager to do it again.

Net Element has also moved quickly to submit two applications to the government for aid. One was for the Paycheck Protection Program loan that covers costs such as payroll, rent, and utilities mostly does not have to be repaid. This program grants 2.5 months of payroll capped at salaries of \$100,000, which could yield near \$500,000 in money that does not have to be paid back by Net Element. The other is the EIDL loan, which provides a 30-year loan with a 3.5% interest rate that does have to be paid back. The company hopes to borrow \$2.6 million that way. The company does not know if either of these will be accepted, in what amount allowed or when it would receive funds if granted. In addition Russia has a stimulus plan and the Russian entities have applied there for whatever they qualify.

Also, seeing an opportunity to help their customers and generate more revenue, last week Net Element announced it has partnered with Power Capital Direct to provide small business loans to its merchants. Power Capital Direct is a small business financial boutique that specializes in alternative financing solutions for small and middle size companies. Power Capital Direct works with several SBA lenders and will work with Net Element to help its merchants in obtain loans under the SBA7 (a) loan guarantee program. Net Element will receive a portion of the commission paid by the lender for any transactions.

While current estimates have a huge margin of error we are putting something out for investors to gage results. This unprecedented situation no doubt leaves risk as well as opportunity.

Q4 2019 Results

Total transaction processing volume increased 10.4% to \$973.4 million, as compared to \$881.8 million for the same comparable period. Net Element grew revenues 3.4% in Q4 to \$16.6 million compared with \$16.1 million in Q4 2019. North American sales increased 3.9% year over year to \$15.8 million, while international was flat sequentially at \$893,000, but was down only 4.5% year over year.

Margins for North America declined to 12.6% versus 14.5% a year ago and 15.8% in Q3 2019 as credit card companies increased the interchange fee. Value added solutions contributed \$840,000 in Q4, up sequentially from \$572,000 in Q3. This number is a 62% increase from last year. Value added solutions include the Netevia platform, Aptito, mobile POS, and Europay services.

International sales margins decreased to 20.2% versus 29.8% a year ago and 25.8% in Q3 as new customers are being brought on at lower than historical rates.

The operating loss was \$1.3 million versus a loss of \$1.2 million last year. EBITDA for the quarter was a negative \$539,000 compared with a negative \$528,000 last year.

In the quarter there was a one-time charge of \$1.3 million for impairment of goodwill relating to the original acquisition of PayOnline. The impairment charge was primarily related to a decrease in projected sales for 2020, which is the base year utilized for determining the discounted cash flows.

The GAAP loss was \$2.8 million versus last year's \$1.5 million. The non-GAAP loss was \$1.4 million versus a non-GAAP loss of \$860,000 in Q4 2018.

The non-GAAP loss per share was \$0.35 per share compared with a loss of \$0.22 per share last year.

This quarter there were 4.1 million average primary shares outstanding, compared to 3.9 million last year. On March 25, 2020, the share count was still 4.1 million shares.

On December 31, Net Element had \$486,604 in cash, negative working capital of \$1.7 million and \$9.4 million in debt up from \$8.2 million last quarter. This quarter Net Element had negative cash flow of \$238,000, but negative free cash flow of \$603,000 after paying for commissions and equipment.

On March 27, 2020, Net Element, entered into an agreement with ESOUA Holdings. Prior to entering into the agreement, ESOUA agreed to acquire an existing promissory note that had been previously issued by the Net Element, of up to \$2,000,000 in principal amount outstanding plus interest due to RBL Capital Group, LLC. For the next year Net Element has the right to request ESOUA exchange this promissory note in tranches. ESOUA will purchase each tranche of the promissory note equal to 88% of the gross proceeds from the shares sold by ESOUA to finance the purchase of such amount from RBL Capital Group, LLC. Each such tranche to be \$148,000 unless otherwise agreed to by both parties.

Events in the Quarter

On Dec. 19, 2019 Net Element announced the launch of *Netevia HQ*, a merchant acquiring enablement services for small and regional banks through its Netevia platform. This capability will allow these banks to become merchant acquirers in less than three months.

On Dec. 26, 2019 Aptito launched a self-ordering kiosk solution to be shared by multiple restaurants in an area that will deliver. These kiosks can be placed somewhere (say in an office building lobby) and the user can choose from a variety of restaurants in the area that will deliver to that building. This allows those restaurants to provide delivery service while side stepping the high fees being charged by the likes of Uber Eats, Grubhub, and Postmates. Anyone with a credit card can place an order and pay directly at the kiosk. This removes the need to download an app or place an order through a mobile phone and setting up multiple accounts.

Annual Results

In 2019, Net Element made a lot of progress increasing transaction volumes and reducing losses and cash burn. Total transaction dollars processed during 2019 increased 12% to more than \$3.7 billion compared to \$3.3 billion in 2018. In North American volume was \$3.2 billion and in international it was \$425 million.

While revenues declined slightly, to \$65 million from \$65.8 million, cash flow from operations lessened from a negative \$3.1 million to only a negative \$144,000. Free cash flow, after buying a portfolio in 2018, buying equipment, and paying commissions, went from a loss of \$8.6 million in 2018 to a loss \$2.6 million in 2019.

Adjusted non-GAAP losses went from \$4.2 million to \$ million and EBITDA went from a negative \$1.7 million to \$ in 2019. In fact each year since inception, management has reduced losses and the cash burn.

	2015	2016	2017	2018	2019
Net loss	(13.3)	(13.5)	(9.9)	(4.9)	(6.5)
Adjusted Non-GAAP Earnings	(9.8)	(7.9)	(7.0)	(4.2)	(3.1)
Adjusted EBITDA	(3.751)	(3.509)	(3.123)	(1.734)	(0.414)

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 provide 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. It sees near term opportunity to buy portfolios at distressed prices.
- Government aid could alleviate cash flow needs.
- The company's goal is to reach cash flow breakeven and thereafter profitability and before the pandemic, it had almost achieved that. Certainly it was on track for cash flow breakeven in 2020 in Q1. Prospects were good and its new customer vetting was expected to improve profits and sales. Transaction volume is down and it is impossible to say what revenues and earnings may end up at for 2020 given so much of the client base is shut down and no end date is yet known.

VALUATION

There are a variety of ways we can value Net Element, all of which point to a much higher stock price. The problem is Net Element's history of raising capital to fund operations. Investors are wary that it may never reach breakeven and stop the dilution. This year, the company has taken efforts to reach cash breakeven and each quarter seems to bring it a step closer. We are confident if Net Element can start generating cash, investors will reward it with stock price appreciation and it may even become an attractive acquisition target in this increasingly consolidating industry. Here are multiple ways of valuing the company:

- Using Net Element's peer group we find an average valuation of 4.9 times the enterprise value to 2020 estimated sales. If we use that multiple and apply it Net Element's estimate of \$54 million, we see that the company could be worth a \$265 million enterprise value if it were profitable.
- Net Element's gross margin for the past twelve months was 15.8%. Using 9.7 times **enterprise value to trailing twelve-month gross margin**, Net Element's value would be 9.7 times \$10.3 million or \$100 million or \$22 per share.

- Looking at the lowest valuation company Usio, we see even it is at double the valuation of NETE at 0.6 times EV to sales. Using that, NETE would trade at \$5.60 per share.
- Using an average of the Usio comp, and the industry comp, gets us a blended value of **\$13.80 per share**.
- Another way to value the company is to compare it to the acquisition valuation used for its peer JetPay. Last October, NCR made a cash tender offer of \$5.05 for each JetPay share represented a multiple of 2.9 times its 2018 consensus revenue forecast of \$63.1 million. Using that valuation metric on NETE's 2020 revenues would be worth an enterprise value of \$157 million, a market value of \$147 million or \$36 per share.

Company	Ticker	EBITDA	Gross Margin	%	Revenue 2020E	Revenue LTM	EBIDTA Margin	EV/20E Sales	EV/LTM Sales	EV/GM	EV/EBITDA	Included in Average?	Enterprise Value
EVERTEC	EVTC	194	274	56%	501	487	40%	3.8	3.9	6.9	9.7	y	1,890
Global Payments	GPN	1,930	2,890	59%	7,540	4,910	39%	6.0	9.3	15.7	23.6	y	45,453
PayPal	PYPL	3,400	7,990	45%	20,640	17,770	19%	4.9	5.7	12.7	29.8	y	101,300
Usio	USIO	(3)	6	21%	30	28	-11%	0.8	0.8	3.9	-7.7	y	24
Square	SQ	83	1,900	101%	2,530	1,890	4%	7.0	9.4	9.3	212.6	y	17,700
Fidelity National Info Services	FIS	3,400	3,720	36%	13,470	10,330	33%	6.7	8.7	24.2	26.5	y	90,000
Average				53%			21%	4.9	6.3	9.7	49.1		47,733

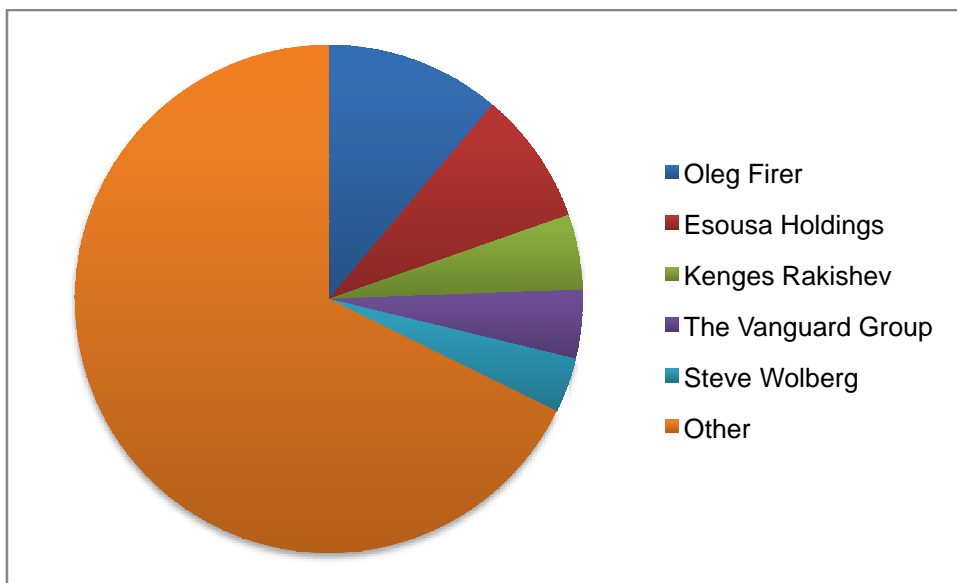
The industry continues to consolidate. In May, Global Payments (GPN) agreed to buy Total System Services (TSS) in a deal valued at \$21.5 billion, or 5.3Xs revenues. Fiserv announced a \$22 billion takeover of First Data Corp. (FDC) in January, and Fidelity National Information Services Inc. just bought Worldpay (WP) for \$43 billion.

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



Source: Zacks Investment Research, SEC filing

INCOME STATEMENT

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020E	Q2 2020E	Q3 2020E	Q4 2020E	2018	2019	2020E	2021E
	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	\$14.0	\$14.4	\$15.6	\$15.2	\$14.4	\$15.7	\$15.9	\$15.8	\$12.1	\$9.7	\$12.0	\$16.0	\$59.1	\$61.8	\$49.78	\$64.00
Yr-over-yr Growth	27.4%	5.9%	18.8%	12.8%	2.8%	9.1%	2.1%	3.9%	-15.8%	-38.5%	-24.6%	1.6%	15.6%	4.5%	-19.4%	28.6%
Cost of service	12.1	12.2	13.3	13.0	11.8	13.4	13.4	13.8	10.5	8.5	10.4	14.2	50.5	52.4	43.6	54.4
Gross margin	1.9	2.2	2.3	2.2	2.6	2.3	2.5	2.0	1.6	1.2	1.6	2.4	8.6	9.4	6.2	9.6
Gross margin %	13.6%	15.2%	14.8%	14.5%	18.1%	14.6%	15.8%	12.6%	13.2%	12.2%	13.3%	15.0%	14.5%	15.2%	12.4%	15.0%
International	2.0	2.0	1.7	0.9	0.7	0.7	0.9	0.9	0.9	1.0	1.1	1.2	6.6	3.2	4.2	6.0
Yr-over-yr Growth	-22.4%	-19.1%	-7.1%	-53.8%	-66.1%	-63.4%	-45.8%	-4.5%	31.6%	26.8%	22.8%	34.4%	-25.5%	-51.5%	28.8%	44.6%
International Cost of Service	1.6	1.6	1.3	0.7	0.5	0.5	0.7	0.7	0.7	0.8	0.8	0.9	5.1	2.3	3.1	4.1
Gross Margin	0.5	0.5	0.4	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.4	1.6	0.9	1.0	1.9
Gross margin %	22.9%	22.4%	22.9%	29.8%	28.1%	39.0%	25.8%	20.2%	20.9%	21.1%	27.3%	29.2%	23.7%	27.8%	25.0%	32.0%
Total revenues	16.0	16.5	17.2	16.1	15.0	16.5	16.8	16.6	13.0	10.6	13.1	17.2	65.8	65.0	53.9	70.0
Yr-to-yr Growth	17.8%	2.0%	15.7%	4.1%	-5.9%	0.1%	-2.5%	3.4%	-13.6%	-35.5%	-22.1%	3.3%	9.5%	-1.2%	-17.0%	29.8%
Costs and expenses:																
Cost of revenues	13.6	13.8	14.6	13.6	12.3	13.9	14.1	14.5	11.2	9.3	11.2	15.1	55.6	54.7	46.7	58.5
Gross Margin	2.4	2.7	2.7	2.5	2.8	2.6	2.7	2.2	1.8	1.4	1.9	2.2	10.2	10.3	7.2	11.5
% of Sales	14.8%	16.1%	15.6%	15.4%	18.5%	15.7%	16.3%	13.0%	13.8%	13.0%	14.5%	12.5%	15.5%	15.8%	13.4%	16.5%
SG&A	2.4	2.5	2.3	2.5	2.4	2.3	2.4	2.3	2.3	2.2	2.2	2.4	9.8	9.3	9.1	9.0
Stock-based compensation	0.1	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	2.1	0.0	1.0
Provision for loan losses	0.1	0.9	0.6	0.5	0.3	0.1	0.4	0.4	0.3	2.0	1.0	0.2	2.1	1.4	3.5	1.2
Depreciation and amortization	0.7	0.7	0.5	0.6	0.9	0.7	0.8	0.8	0.9	0.7	0.8	0.8	2.5	3.1	3.1	3.0
Total operating expenses	3.4	4.1	3.4	3.6	3.6	5.2	3.6	3.5	3.5	4.9	4.0	3.4	14.5	15.9	15.7	14.2
Loss from operations	(1.0)	(1.4)	(0.8)	(1.2)	(0.8)	(2.6)	(0.9)	(1.3)	(1.7)	(3.6)	(2.1)	(1.2)	(4.3)	(5.6)	(8.5)	(2.7)
Interest expense, net	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.8)	(1.1)	(1.4)	(1.4)
Other expense	(0.4)	0.7	0.0	0.4	(0.1)	1.3	0.1	0.2	0.0	0.0	0.0	0.0	0.8	1.5	0.0	0.0
Gain on asset disposal	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
Gain on change in conversion derivative	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
Loss from stock value guarantee	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
One-time charges	0.0	0.0	0.0	(0.6)	0.0	0.0	0.0	(1.3)	0.0	0.0	0.0	0.0	(0.6)	(1.3)	0.0	0.0
Total non-operating expenses	(0.6)	0.4	(0.2)	(0.4)	(0.3)	1.0	(0.2)	(1.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.7)	(1.0)	(1.4)	(1.4)
Pretax operating income (loss)	(1.6)	(1.0)	(0.9)	(1.5)	(1.1)	(1.6)	(1.0)	(2.8)	(2.0)	(3.9)	(2.4)	(1.6)	(5.0)	(6.6)	(9.9)	(4.1)
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%
Operating Loss	(1.6)	(1.0)	(0.9)	(1.5)	(1.1)	(1.6)	(1.0)	(2.8)	(2.0)	(3.9)	(2.4)	(1.6)	(5.0)	(6.6)	(9.9)	(4.1)
Minority interest	(0.0)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Net loss	(1.6)	(0.9)	(0.9)	(1.5)	(1.1)	(1.5)	(1.0)	(2.8)	(2.0)	(3.9)	(2.4)	(1.5)	(4.9)	(6.5)	(9.9)	(4.1)
Foreign currency translation gain (loss)	0.0	0.0	(0.1)	0.4	(0.0)	(0.0)	0.0	(0.0)	0.0	0.0	0.0	0.0	0.3	(0.0)	0.0	0.0
Comprehensive loss	(1.6)	(0.9)	(1.1)	(1.1)	(1.1)	(1.5)	(1.0)	(2.8)	(2.0)	(3.9)	(2.4)	(1.5)	(4.6)	(6.5)	(9.9)	(4.1)
Earnings ex-one time charge	(1.6)	(0.9)	(0.9)	(0.9)	(1.1)	(1.5)	(1.0)	(1.5)	(2.0)	(5.0)	(2.4)	(1.5)	(4.3)	(5.1)	(9.9)	(4.1)
Stock-based compensation	0.1	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	2.1	0.0	1.0
Adjusted Non-GAAP Earnings	(1.5)	(0.9)	(0.9)	(0.9)	(1.1)	0.5	(1.0)	(1.4)	(2.0)	(5.0)	(2.4)	(1.5)	(4.2)	(3.1)	(9.9)	(3.1)
Yr-to-yr Growth	-19.2%	-41.7%	-44.2%	-56.5%	-27.7%	-153.2%	12.1%	68.3%	78.9%	-1161.5%	138.2%	5.1%	-40%	-26%	219.9%	-68.7%
GAAP EPS	(\$0.42)	(\$0.23)	(\$0.23)	(\$0.39)	(\$0.29)	(\$0.37)	(\$0.24)	(\$0.68)	(\$0.48)	(\$0.94)	(\$0.58)	(\$0.37)	(\$1.28)	(\$1.60)	(\$2.39)	(\$0.99)
Non-GAAP EPS	(\$0.40)	(\$0.23)	(\$0.23)	(\$0.22)	(\$0.28)	\$0.11	(\$0.24)	(\$0.35)	(\$0.48)	(\$1.20)	(\$0.57)	(\$0.37)	(\$1.07)	(\$0.76)	(\$2.38)	(\$0.75)
Yr-to-yr Growth	-65%	-73%	-73%	-78%	-29%	-149%	5%	58%	69.1%	-1177.7%	139.2%	4.5%	-69.7%	-29.1%	212.7%	-68.7%
Share outstanding	3.9	3.9	3.9	3.9	3.9	4.2	4.2	4.1	4.1	4.1	4.1	4.1	3.9	4.0	4.1	4.1
Yr-to-yr Growth	134%	118%	106%	96%	1%	9%	6%	6%	5.8%	-1.5%	-0.4%	0.6%	96.6%	4.5%	2.3%	0.0%
Fully diluted shares	4.8	4.8	4.9	4.9	3.9	4.2	4.2	4.1	4.1	4.1	4.1	4.1	4.8	4.0	4.1	4.1
Yr-to-yr Growth	156%	140%	120%	68%	-19%	-13%	-15%	-16%	0.0%	0.0%	0.0%	0.0%	120.1%	-16.7%	0.0%	17.5%

BALANCE SHEET

	Dec 31, 2019	Sept 30, 2019	Qtr-Qtr % Change	Dec 31, 2018	Yr- Yr % Change
Current assets:					
Cash	\$486,604	\$492,656	-1%	\$1,645,481	-70%
Accounts receivable, net	6,560,928	5,545,309	18%	6,290,412	4%
Prepaid expenses and other assets	1,621,144	1,367,083	19%	1,749,221	-7%
Total current assets	8,668,676	7,405,048	17%	9,685,114	-10%
Equipment, net	3,773	9,550	-60%	25,335	-85%
Intangible assets, net	5,678,649	5,951,219	-5%	6,441,743	-12%
Goodwill	7,681,186	9,007,752	-15%	9,007,752	-15%
Operating lease right-of-use asset	380,986	411,996	-8%	NA	NA
Other long term	629,651	655,702	-4%	604,070	4%
Total assets	23,042,921	23,441,267	-2%	25,764,014	-11%
Current liabilities:					
Accounts payable	\$6,041,606	\$5,350,538	13%	\$6,368,444	-5%
Deferred revenue	1,401,117	944,283	48%	1,495,849	-6%
Accrued expenses	1,800,344	1,637,549	10%	2,535,947	-29%
Notes payable (current portion)	909,086	114,160	696%	433,448	110%
Operating lease liability (current portion)	133,727	31,010	331%	NA	NA
Due to related parties	126,662	135,311	-6%	387,814	-67%
Total current liabilities	10,412,542	8,212,851	27%	11,221,502	-7%
Operating lease liability (net of current)	247,259	380,986	-35%	0	NA
Notes payable (non-current portion)	8,342,461	7,982,730	5%	5,946,046	40%
Total liabilities	19,002,262	16,576,567	15%	17,167,548	11%
STOCKHOLDERS' DEFICIT					
Common stock	410	411	0%	386	6%
Paid in capital	185,297,069	185,282,062	0%	183,246,232	1%
Accumulated other comp income (loss)	(2,274,187)	(2,247,888)	1%	(2,232,163)	2%
Accumulated deficit	(178,750,634)	(175,961,173)	2%	(172,292,252)	4%
Noncontrolling interest	(231,999)	(208,712)	11%	(125,737)	85%
Total stockholders' deficit	4,040,659	6,864,700	-41%	8,596,466	-53%
Total liabilities and stockholders' deficit	23,042,921	23,441,267	-2%	25,764,014	-11%
Net Cash	486,604	492,656	-1%	1,645,481	-70%
Current and Quick Ratio	0.8	0.9	-8%	0.9	-4%
Working Capital	(1,743,866)	(807,803)	116%	(1,536,388)	14%
Total Debt	9,378,209	8,232,201	14%	6,767,308	39%
Debt/TA	41%	35%	16%	26%	55%
DSO	36.1	30.0	20%	35.7	1%

CASH FLOWS

	Mar. 31, 2018	June 30, 2018	Sept 30, 2018	Dec. 31, 2018	YR 2018	Mar. 31, 2019	June 30, 2019	Sept 30, 2019	Dec. 31, 2019	YR 2019
	3 month	3 month	3 month	3 month		3 month	3 month	3 month	3 month	
Cash flows from operating activities										
Net loss	\$ (1,610,847)	\$ (903,730)	\$ (910,412)	\$ (1,511,193)	\$ (4,936,182)	\$ (1,120,847)	\$ (1,537,445)	\$ (1,010,629)	\$ (2,789,461)	\$ (6,458,382)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:										
Non controlling interest	27,553	(69,482)	(25,653)	(18,969)	(86,551)	(13,966)	(40,225)	(28,783)	(23,287)	(106,261)
Share based compensation	82,011	22,500	22,500	15,006	142,017	15,006	2,005,841	15,008	15,007	2,050,862
Deferred revenues	-	58,319	(594,360)	319,299	(216,742)	(523,199)	(523,199)	494,832	456,834	(94,732)
Net non cash items in other income	-	-	-	(1,202,201)	(1,202,201)	-	-	-	-	-
Impairment for goodwill	-	-	-	636,000	636,000	-	-	-	1,326,566	1,326,566
Depreciation and amortization	703,538	662,525	463,384	625,190	2,454,637	851,220	747,347	755,985	765,691	3,120,243
Non cash interest	16,759	18,437	13,804	24,442	73,442	14,314	7,397	14,972	20,192	56,875
(Recovery of) provision for loan losses	-	-	-	16,238	16,238	10,013	(18,940)	8,927	(9,226)	(9,226)
Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates										
Account receivable	1,032,930	(461,525)	(191,804)	(1,883,356)	(1,503,755)	1,151,285	13,976	(423,880)	(1,005,139)	(263,758)
Deferred revenue	(535,748)	535,748	-	-	-	-	-	-	-	-
Prepaid expenses and other assets	(308,648)	(47,937)	814,391	(73,403)	384,403	253,634	415,012	(442,293)	(358,571)	(132,218)
Accounts payable and accrued expenses	(545,306)	(1,566,462)	24,352	3,058,618	971,202	(875,266)	(1,429,936)	(182,855)	3,058,618	(1,642,618)
Net cash (used in) provided by operating	(1,137,758)	(1,751,607)	(383,798)	5,671	(3,267,492)	(237,806)	(360,172)	(798,716)	(755,955)	(2,152,649)
Cash flows from investing activities										
Purchase of portfolio and client acquisition	(401,980)	(476,466)	(2,973,150)	(1,561,668)	(5,413,264)	(651,365)	(558,913)	(412,204)	(691,180)	(2,313,662)
Receipt of excess deposits	-	-	-	-	-	-	-	-	-	-
Purchase of fixed and other assets	(2,393)	12,291	(124,939)	110	(114,931)	(413,132)	(55,155)	4,659	325,628	(138,000)
Net cash used in investing activities	(404,373)	(464,175)	(3,098,089)	(1,561,558)	(5,528,195)	(1,064,497)	(614,068)	(407,545)	(365,552)	(2,451,662)
Cash flows from financing activities										
Proceeds from indebtedness	-	-	-	2,131,500	2,131,500	-	1,116,500	920,184	997,816	3,034,500
Repayment of indebtedness	(515,834)	(522,831)	(419,871)	(1,326,598)	(2,785,134)	(102,700)	(106,384)	(110,204)	156,841	(162,447)
Cash received from issuance of shares and Lease liability	-	-	-	-	-	-	-	-	-	-
Related party advances (payments)	(33,027)	67,954	(74,192)	39,265	-	471,307	(29,213)	(30,098)	-	380,986
Net cash provided by (used in) financing	(548,861)	(454,877)	(494,063)	844,167	(653,634)	(171,615)	338,176	85,942	(50,032)	202,471
Effect of exchange rate changes on cash	(3,720)	21,353	(2,597)	(49,435)	(34,399)	(12,497)	18,768	(6,555)	15,789	15,505
Net increase in cash	(2,094,712)	(2,649,306)	(3,978,547)	(761,155)	(9,483,720)	(1,117,808)	363,607	(346,992)	(32,103)	(1,133,296)
Cash at beginning of period	11,733,271	9,638,559	6,989,253	3,010,706	11,733,271	2,249,551	1,131,743	1,495,350	1,148,358	2,249,551
Cash at end of period	9,638,559	6,989,253	3,010,706	2,249,551	2,249,551	1,131,743	1,495,350	1,148,358	1,116,255	1,116,255
Cash paid during the period for:										
Interest	226,479	217,753	201,678	127,827	773,737	230,789	245,135	255,069	-	730,993
Taxes	4,140	-	40,792	16,939	61,871	46,932	56,909	16,703	-	120,544
Operating cash flow	(780,986)	(211,431)	(1,030,737)	(1,096,188)	(3,119,342)	(767,459)	640,776	250,312	(237,684)	(114,055)
Free cash flow	(1,185,359)	(675,606)	(4,128,826)	(2,657,746)	(8,647,537)	(1,831,956)	26,708	(157,233)	(603,236)	(2,565,717)

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

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