

Zacks Small-Cap Research

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Inuvo Inc.

(INUV-AMEX)

INUV: Firing On All Cylinders as Margins Expand and Revenues Accelerate

OUTLOOK

At an enterprise value of \$27 million the company is valued well below the industry average of 1.5 times enterprise value to sales. **Using 2018 est. revenue of \$95 million yields a \$5.00 target stock price.**

Inuvo, a digital publishing, and advertising technology company, it poised to capitalize on its newly enhanced ad platform INUVO Exchange and its expanded sales and marketing team. We expect revenue and earnings growth as well as operating margin improvement going forward. The company plans to reinvest all its excess cash in growth while continuing to report EBITDA positive results. January results show the company growing internally at 22%.

Current Price (02/08/18) \$0.84
Valuation \$5.00

SUMMARY DATA

52-Week High \$1.66
52-Week Low \$0.75
One-Year Return (%) -48.1
Beta 0.73
Average Daily Volume (sh) 60,426

Shares Outstanding (mil) 29
Market Capitalization (\$mil) \$24
Short Interest Ratio (days) N/A
Institutional Ownership (%) 22
Insider Ownership (%) 16

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

5-Yr. Historical Growth Rates

Sales (%) 8.6
Earnings Per Share (%) 8.5
Dividend (%) N/A

P/E using TTM EPS N/A

P/E using 2018 Estimate N/M

P/E using 2019 Estimate 10.5

Zacks Rank N/A

Risk Level Above Average
Type of Stock Small Blend
Industry Internet-Services
Zacks Rank in Industry N/A

ZACKS ESTIMATES

Revenue

(in millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|--------|--------|--------|--------|---------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2016 | 18.7 A | 15.6 A | 17.5 A | 19.7 A | 71.5 A |
| 2017 | 17.2 A | 18.3 A | 20.3 A | 23.8 A | 79.6 A |
| 2018 | 21.2 E | 22.5 E | 24.0 E | 27.3 E | 95.0 E |
| 2019 | | | | | 114.0 E |

Earnings Per Share

(Non-GAAP EPS from continuing operations)

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|-----------|-----------|-----------|-----------|-----------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2016 | \$0.03 A | -\$0.01 A | -\$0.00 A | -\$0.00 A | -\$0.01 A |
| 2017 | -\$0.04 A | -\$0.02 A | -\$0.02 A | -\$0.00 A | -\$0.09 A |
| 2018 | -\$0.02 E | -\$0.01 E | -\$0.01 E | \$0.02 E | -\$0.01 E |
| 2019 | | | | | \$0.08 E |

Zacks Projected EPS Growth Rate - Next 5 Years % 15

WHAT'S NEW

Improving Margins and Accelerating Revenues Portent Double Digit Growth in 2018

Inuvo reported a strong Q4, which evidenced improving margins and accelerating revenues. Even more auspicious were its **January results that showed a year over year increase in revenues of 37%, or 22% organically** (eliminating the affect of the acquisition of NetSeer last February.) By simple arithmetic, if that organic growth rate keeps up for February and March, that would point to a \$21.9 million quarter, up 27% year over year. Since the addition of a Chief Revenue Officer in June, the company has been adding staff in sales and marketing. It now has a group of 15 including four new salespeople who were added mostly in the fourth quarter. These new hires are up and running and should contribute significantly in 2018. The company is also amenable to adding more personnel in this group once they have had time to evaluate the results of these recent hires. Inuvo believes its sales have been helped by the trend of advertisers consolidating the number of vendors they use to those will a wider range of products. In Q4 the company had a dramatic rise in available pages, which grew sequentially from 6.8 billion pages in Q3 to 7.2 billion pages in Q4, at a price of \$3.30 RPM for Q4, up from a \$3.00 RPM in Q3 2017.

Inuvo reported Q4 2017 revenues of \$20.8 million, up 21% from last year. Gross margin was down from last year at 52% versus 59%, and down a percentage point sequentially. However, the more important number to look at is the margin after marketing spend. This percentage increased to 20.2% from 10.6% last year, and 17.2% in Q3 2017. Since marketing expense is used to buy revenues (TAC), the more important result is the profit off of those revenues. That profit was up 360% from last year to \$4.8 million from \$1.0 million. This compares with \$3.5 million in Q3 2017. So on a 17% sequential improvement in revenues, the company has a 37% improvement in profit after marketing expense. Dollar wise we expect marketing expense to increase as the company further refines its ability to translate those dollars into higher margin profits at its owned and operated web sites. Marketing spending in Q4 was reduced to \$7.5 million versus \$8.8 million last year. In 2018, the company expects profit after marketing expense to continue to tick up and for the year they could be up as much as a "point or two higher."

The NetSeer acquisition did turn accretive in Q4 2017 as expected as cost savings kicked in and revenues increased. For the year, revenues from mobile advertising were 62% of sales, versus the 2016 average of 52%. NetSeer went from contributing \$0.8 million a month in revenues in February to \$1.9 million in December.

Compensation expense increased to \$3.1 million versus \$1.9 million a year ago as the number of employees grew to 90 from 70 due to the purchase of NetSeer. The company does not expect compensation cost to increase in 2018 and in fact expects it to be lower than \$3.1 million on a quarterly basis as this number included some year end accruals.

SG&A was again \$2.0 million (versus \$1.2 million a year ago) and flat sequentially the whole year taking out one time costs in Q2. The full reduction of locations and data center consolidation will be fully felt in Q1 2018. This will reduce expenses even further and improve operating margins.

The company had a gain on taxes of \$1.5 million as the new tax laws kicked in and this pushed the company reported net income to a positive \$1 million versus a loss of \$309,000 last year. Even with the new tax laws, Inuvo still has nearly \$78 million in tax loss carry forwards.

Taking out stock-based compensation, and the one-time tax gain, **adjusted EBITDA was \$768,000** versus \$253,000 in Q3 2017 and \$612,000 last year.

The company reported a gain of \$0.03 versus a loss of \$0.01 last year, but on an adjusted non-GAAP basis, taking out stock-based compensation and the tax gain, the non-GAAP EPS was breakeven, same

as last year. We expect the company to continue to deploy all its excess cash to generate profits while remaining EBITDA positive.

Inuvo management continues to be optimistic for 2018 as it now has capabilities beyond much of its competition and believes customers will continue to reduce the number of companies they work with. It is now calling its platform *INUVO Exchange* and believes it has the “end-to-end technology foundation necessary to disintermediate smaller niche players, and compete with bigger players.” It will also begin a push into video advertising, which has higher margins than its average. In 2018, Inuvo may open a small office in Beijing with support from local government, as it seeing interest from customers in China.

The strategy for Inuvo investors and management has always been to grow the business large enough to be attractive as an acquisition. Once the company reaches over \$100 million in sales, we believe it could be large enough to be an attractive acquisition to a larger company.

KEY POINTS

- Native advertising, INUV’s newer market, is a large high growth market. In 2020, the native advertising market in North America is expected to reach \$31.7 billion, of which the US market should comprise \$29.7 billion, up from \$14 billion in 2016 or 18.6% CAGR.
- The company had its goal is to reach a \$100 million in revenue run rate by the end of 2017 fell short as it focused on higher profitability rather than just revenue growth. Based on the month of January, the company is now at a \$92.4 million run rate, so \$100 million looms closer.
- Charles D. Morgan, Director and former founder and Chairman of Acxiom, has a 7% stake in the company (through Tocqueville Asset Management.) We believe that this stake will help keep the company’s objectives in line with that of shareholders. We believe that ultimately the company will be sold when it proves it has traction and reaches a size of interest to larger corporations.
- We believe the company is valued below its peers. If we use enterprise value to sales (since many competitors operate at a loss), the stock is still priced well below its peers who trade at an average of 1.5 times enterprise value to sales. **At a multiple of 1.5xs estimated \$95 million in 2018 revenue, the stock should be worth \$5.00.**

VALUATION

Inuvo is hybrid adtech company and digital publisher, but is moving to a higher percentage of adtech and deemphasizing the lower margin publishing business. Back in Q1 2017 quarter the revenue the company’s revenues were 42% from the digital publisher. The company said that going forward it would no longer break out revenues into segments, but we believe the percent is now much lower than that.

We applied average multiples of sales to Inuvo’s historical and projected revenues based on the comparable companies in the table below. Using this multiple and applying it to 2018 estimated revenues of \$95 million the stock should be worth \$5.00.

| Company | Ticker | Revenue | | TTM | Enterprise Value / Sales | | EV/ | Included Average? | Enterprise Value |
|---------------------|-----------|---------|---------|-------------|--------------------------|-------------|-------------|----------------------|---------------------|
| | | 2018E | LTM | EBITDA | 2018E | LTM | EBITDA | | |
| AutoWeb | 1% AUTO | \$150 | \$149 | \$11 | 0.5x | 0.5x | 7.1x | y | 77 |
| Blucora | 8% BCOR | \$536 | \$499 | \$92 | 2.6x | 2.7x | 14.9x | y | 1,370 |
| Leaf Group | 17% LFGR | \$145 | \$123 | -\$21 | 1.1x | 1.3x | -7.3x | y | 155 |
| Marchex | -7% MCHX | \$90 | \$97 | -\$8 | 0.5x | 0.5x | -5.8x | y | 45 |
| The Rubicon Project | -50% RUBI | \$98 | \$197 | -\$9 | -0.5x | -0.3x | 6.0x | n | (51) |
| SITO Mobile | 56% SITO | \$56 | \$36 | -\$4 | 2.1x | 3.3x | -28.0x | y | 120 |
| Travelzoo | -13% TZOO | \$106 | \$121 | \$8 | 0.6x | 0.5x | 7.1x | y | 58 |
| IAC | 22% IAC | \$3,880 | \$3,170 | \$344 | 3.1x | 3.8x | 35.4x | y | 12,180 |
| Average | | | | 60.3 | 1.5x | 1.8x | 3.3x | | \$2,001 |

| Inuvo | Revenue | | TTM | Enterprise Value / Sales | | Valuation Range | |
|-------|-------------|-------------|------------|--------------------------|-------------|-----------------|--------------|
| | 2018E | LTM | EBITDA | 2018E | LTM | Low | High |
| | \$95 | \$80 | 0.4 | 1.5x | 1.8x | \$142 | \$144 |

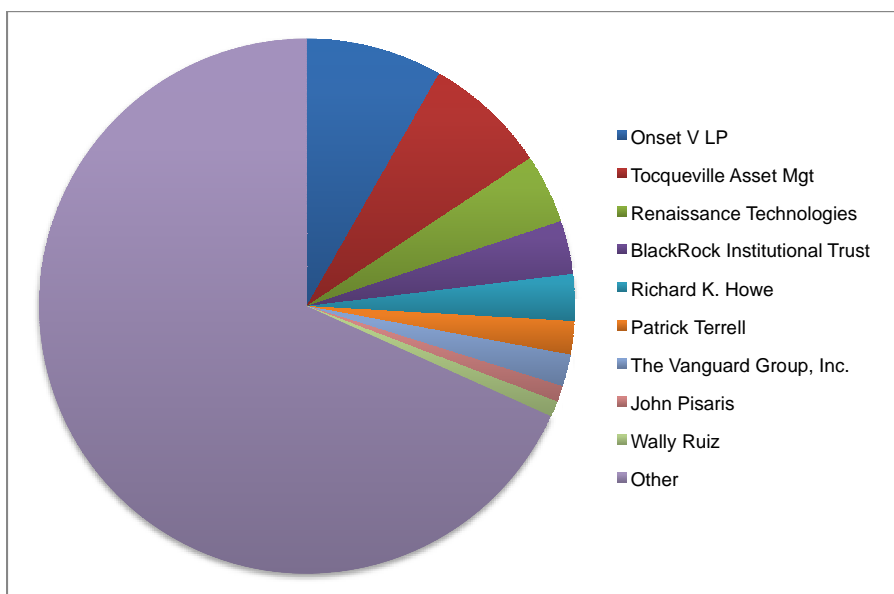
| | |
|--------------------------------|----------------------|
| Conclusion of Enterprise Value | \$142,958,686 |
| Market Value | \$143,774,000 |
| Shares Outstanding | 28,622,994 |
| Price per Share | \$5.02 |

RISKS

- There are few barriers to entry in the advertising network business and it typically operates with slim margins with competition mainly on price. Recently the industry has been consolidating.
- Some of the company's growth is dependent on the success of new products that may not be adopted by new customers.
- The digital ad business is very competitive and there is far more inventory of ad space than is needed. There could be continued price pressure that would lower click rates going forward. Much of the ad inventory in the US goes unsold; more inventory could exacerbate this supply-demand imbalance. Thus, Inuvo may have to increase volume of ads sold just to maintain revenues.
- Inuvo has limited resources with which to compete against much larger companies and this could hinder its growth as well as its abilities to acquire companies.

OWNERSHIP

Charles D. Morgan owns 2 million of the shares of the Tocqueville Asset Management position. Onset V was the venture capitalist owner of NetSeer, and owns 2.6 million shares of Inuvo.



INCOME STATEMENT

| Inuvo | Q1 2016 31-Mar | Q2 2016 30-Jun | Q3 2016 30-Sep | Q4 2016 31-Dec | Q1 2017 31-Mar | Q2 2017 30-Jun | Q3 2017 30-Sep | Q4 2017 31-Dec | Q1 2018E 31-Mar | Q2 2018E 30-Jun | Q3 2018E 30-Sep | Q4 2018E 31-Dec | 2016 | 2017 | 2018E | 2019E |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|---------------|---------------|---------------|----------------|
| Total revenue | \$18.7 | \$15.6 | \$17.5 | \$19.7 | \$17.2 | \$18.3 | \$20.3 | \$23.8 | \$21.2 | \$22.5 | \$24.0 | \$27.3 | \$71.5 | \$79.6 | \$95.0 | \$114.0 |
| Yr-to-yr Growth | 40% | -6% | -9% | -7% | -8% | 17% | 16% | 21% | 23% | 23% | 18% | 15% | 2% | 11% | 19% | 20% |
| Total Cost of services | 4.3 | 4.0 | 5.1 | 8.0 | 7.9 | 7.6 | 9.6 | 11.5 | 10.4 | 10.8 | 11.5 | 12.8 | 21.4 | 36.7 | 45.6 | 53.8 |
| Gross profit | 14.4 | 11.7 | 12.3 | 11.7 | 9.3 | 10.7 | 10.7 | 12.2 | 10.8 | 11.7 | 12.5 | 14.5 | 50.2 | 42.9 | 49.4 | 60.2 |
| Gross Margin % | 77% | 75% | 71% | 59.5% | 54% | 58% | 52.5% | 51.6% | 51% | 52% | 52% | 53% | 70% | 54% | 52% | 53% |
| Operating expenses: | | | | | | | | | | | | | | | | |
| Marketing | 11.1 | 9.4 | 9.9 | 8.8 | 6.5 | 7.5 | 7.2 | 7.5 | 6.6 | 7.1 | 7.7 | 8.5 | 39.2 | 28.6 | 29.9 | 34.0 |
| Profit after marketing of Digital Publishing | 2.3 | 1.5 | 1.4 | 1.0 | 2.9 | 3.2 | 3.5 | 4.8 | 4.2 | 4.6 | 4.8 | 6.0 | 6.2 | 14.3 | 19.5 | 26.2 |
| Margin % | 21% | 16% | 13.9% | 10.6% | 16.6% | 17.3% | 17.2% | 20.2% | 19.9% | 20.2% | 19.9% | 21.9% | 14% | 18% | 21% | 23% |
| Compensation | 1.7 | 1.6 | 1.7 | 1.9 | 2.4 | 2.3 | 2.4 | 3.1 | 3.0 | 3.0 | 3.1 | 3.4 | 6.8 | 10.2 | 12.5 | 14.0 |
| SG&A | 1.3 | 1.3 | 1.2 | 1.2 | 2.1 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 | 2.2 | 5.0 | 8.3 | 8.3 | 11.0 |
| Total operating expenses | 14.0 | 12.3 | 12.8 | 11.9 | 11.0 | 12.0 | 11.6 | 12.6 | 11.6 | 12.1 | 12.9 | 14.1 | 51.0 | 47.1 | 50.7 | 59.0 |
| Operating income: | 0.4 | (0.6) | (0.5) | (0.2) | (1.6) | (1.3) | (0.9) | (0.4) | (0.7) | (0.4) | (0.4) | 0.4 | (0.9) | (4.2) | (1.2) | 1.2 |
| Operating margin | 2.2% | -3.9% | -2.6% | -1.0% | -9.6% | -7.2% | -4.4% | -1.6% | -3.5% | -2.0% | -1.8% | 1.4% | -1.2% | -5.3% | -1.3% | 1.1% |
| Other income: | | | | | | | | | | | | | | | | |
| Interest expense, net | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) | (0.0) | (0.1) | (0.1) | (0.1) | (0.1) | (0.3) | (0.3) | (0.3) |
| Total other income | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) | (0.0) | (0.1) | (0.1) | (0.1) | (0.1) | (0.3) | (0.3) | (0.3) |
| Income before income taxes | 0.4 | (0.6) | (0.5) | (0.229) | (1.7) | (1.4) | (0.986) | (0.494) | (0.8) | (0.5) | (0.5) | 0.3 | (1.0) | (4.6) | (1.5) | 0.9 |
| Pretax Margin | 2.0% | -4.0% | -2.7% | -1.2% | -9.8% | -7.6% | -4.9% | -2.1% | -3.7% | -2.3% | -2.2% | 1.0% | -1.3% | -5.7% | -1.6% | 0.8% |
| Income tax benefit | 0.0 | (0.1) | (0.0) | 0.1 | - | - | - | (1.5) | - | - | - | - | (0.0) | (1.5) | - | - |
| Tax rate | 2% | 9% | 9% | -27% | 0% | 0% | 0% | 9% | 0% | 0% | 0% | 9% | 3.1% | 32.9% | 0.0% | 0.0% |
| Net income from continuing operations | 0.4 | (0.6) | (0.4) | (0.3) | (1.7) | (1.4) | (1.0) | 1.0 | (0.8) | (0.5) | (0.5) | 0.3 | (0.9) | (3.1) | (1.5) | 0.9 |
| Net income from discontinued operations | 0.0 | (0.0) | 0.2 | (0.0) | (0.0) | - | - | - | - | - | - | - | 0.2 | (0.0) | - | - |
| Net income | 0.4 | (0.6) | (0.3) | (0.309) | (1.7) | (1.4) | (1.0) | 1.004 | (0.8) | (0.5) | (0.5) | 0.3 | (0.8) | (3.1) | (1.5) | 0.9 |
| Stk based compensation | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 1.3 | 1.3 | 1.3 | 1.3 |
| One-time expenses | (0.0) | - | - | - | 0.4 | 0.4 | - | (1.5) | - | - | - | - | (0.0) | (0.8) | - | - |
| Non-GAAP Income from continuing | 0.7 | (0.2) | (0.1) | (0.0) | (1.0) | (0.6) | (0.6) | (0.1) | (0.5) | (0.2) | (0.2) | 0.6 | 0.3 | (2.6) | (0.3) | 2.2 |
| Net income per share: | | | | | | | | | | | | | | | | |
| Basic from continuing | 0.02 | (0.02) | (0.02) | (0.01) | (0.06) | (0.05) | (0.03) | 0.04 | (0.03) | (0.02) | (0.02) | 0.01 | (0.04) | (0.11) | (0.05) | 0.03 |
| Diluted from continuing | 0.02 | (0.02) | (0.02) | (0.01) | (0.06) | (0.05) | (0.03) | 0.03 | (0.03) | (0.02) | (0.02) | 0.01 | (0.04) | (0.11) | (0.05) | 0.03 |
| Non-GAAP Diluted from continuing | 0.03 | (0.01) | (0.00) | (0.00) | (0.04) | (0.02) | (0.02) | (0.00) | (0.02) | (0.01) | (0.01) | 0.02 | 0.01 | (0.09) | (0.01) | 0.08 |
| Adjusted EBITDA | 182.1% | -137.2% | -113.9% | -103.2% | -233.3% | 125.5% | 368.9% | 305.9% | -56.4% | -66.3% | -66.4% | -549.0% | -88% | -76% | -89% | -856% |
| Shares | | | | | | | | | | | | | | | | |
| Basic | 24.4 | 24.6 | 24.7 | 24.9 | 27.0 | 28.5 | 28.6 | 28.6 | 28.6 | 28.6 | 28.6 | 28.6 | 24.6 | 28.2 | 28.6 | 28.6 |
| Diluted | 24.6 | 24.6 | 24.7 | 24.9 | 27.2 | 28.7 | 28.8 | 28.7 | 28.6 | 28.6 | 28.6 | 28.7 | 24.7 | 28.3 | 28.6 | 28.7 |
| Adjusted EBITDA | 1.30 | 0.29 | 0.42 | 0.61 | (0.31) | 0.17 | 0.253 | 0.76 | 0.35 | 0.65 | 0.67 | 1.52 | 2.62 | 0.38 | 3.18 | 3.18 |
| | 93% | -74% | -69% | -61% | -124% | -42% | -40% | 24% | -212% | 287% | 165% | 100% | -44% | -85% | 729% | 0% |

BALANCE SHEET

| | Dec 31, 2017 | Sept 30, 2017 | Qtr-Qtr % Change | Dec 31, 2016 | Yr-Yr % Change |
|--|--------------|---------------|---------------------|--------------|-------------------|
| Current assets | | | | | |
| Cash | \$4,084,686 | \$2,901,965 | 41% | \$3,946,804 | 3% |
| Accounts receivable, net | 10,759,250 | 9,976,903 | 8% | 7,586,129 | 42% |
| Unbilled revenue | 0 | 0 | 0% | 8,644 | -100% |
| Prepaid expenses and other current assets | 400,191 | 347,707 | 15% | 284,469 | 41% |
| Total current assets | 15,244,127 | 13,226,575 | 15% | 11,826,046 | 29% |
| Property and equipment, net | 2,306,279 | 2,233,183 | 3% | 1,615,223 | 43% |
| Other assets | | | | | |
| Goodwill | 9,853,342 | 9,773,842 | 1% | 5,760,808 | 71% |
| Intangible assets, net of accumulated amortization | 10,808,018 | 11,319,044 | -5% | 8,343,876 | 30% |
| Other assets | 36,070 | 96,070 | -62% | 15,186 | 138% |
| Total other assets | 20,697,430 | 21,188,956 | -2% | 14,119,870 | 47% |
| Total assets | 38,247,836 | 36,648,714 | 4% | 27,561,139 | 39% |
| Current liabilities | | | | | |
| Accounts payable | 13,614,053 | 11,761,983 | 16% | 9,280,779 | 47% |
| Accrued expenses and other current liabilities | 2,887,816 | 2,936,116 | -2% | 2,689,640 | 7% |
| Revolving credit line - current portion | 4,900,000 | 5,000,000 | -2% | 0 | 0% |
| Total current liabilities | 21,401,869 | 19,698,099 | 9% | 11,970,419 | 79% |
| Long-term liabilities | | | | | |
| Deferred tax liability | 2,331,900 | 3,738,500 | -38% | 3,738,500 | -38% |
| Other long-term liabilities | 426,725 | 485,405 | -12% | 326,428 | 31% |
| Total long-term liabilities | 2,758,625 | 4,223,905 | -35% | 4,064,928 | -32% |
| Total Liabilities | 24,160,494 | 23,922,004 | 1% | 16,035,347 | 51% |
| Stockholder's equity | | | | | |
| Total stockholders' equity | 14,087,342 | 12,726,710 | 11% | 11,525,792 | 22% |
| Total liabilities and stockholders' equity | \$38,247,836 | \$36,648,714 | 4% | \$27,561,139 | 39% |
| Quick Ratio | 0.7 | 0.7 | 6% | 1.0 | -28% |
| Working Capital | (6,157,742) | (6,471,524) | -5% | (144,373) | 4165% |
| Net cash | (815,314) | (2,098,035) | -61% | 3,946,804 | -121% |
| Cash as % of assets | -2% | 8% | -127% | 14% | -115% |
| Cash per share | -\$0.03 | \$0.12 | -128% | \$0.15 | -123% |
| Debt % of assets | 14% | 15% | -7% | 0% | NM |

CASH FLOW

| | 3 Months Ended 3/31/16 | 3 Months Ended 6/31/16 | 3 Months Ended 9/30/16 | 3 Months Ended 12/31/16 | Year 2016 | 3 Months Ended 3/31/17 | 3 Months Ended 6/30/17 | 3 Months Ended 9/30/17 | 3 Months Ended 12/31/17 | Year 2017 |
|--|---------------------------|---------------------------|---------------------------|----------------------------|--------------|---------------------------|---------------------------|---------------------------|----------------------------|--------------|
| Operating activities: | | | | | | | | | | |
| Net income | 374,274 | (574,828) | (263,073) | (229,308) | (772,584) | (1,693,054) | (1,382,371) | (986,170) | 1,003,895 | (3,057,700) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | | | | | |
| Settlement of tax liability | - | - | - | - | - | - | - | - | - | - |
| Depreciation and amortization | 540,562 | 561,494 | 556,296 | 551,386 | 2,209,738 | 693,175 | 741,692 | 804,631 | 790,303 | 3,029,801 |
| Deferred income taxes | - | - | - | (61,100) | (61,100) | - | - | (1,406,600) | - | (1,406,600) |
| Amortization of financing fees | 6,400 | 6,400 | 6,400 | - | 25,600 | 6,400 | 6,400 | 6,400 | 6,400 | 25,600 |
| Adjustment of European liabilities related to discontinued operations | (5,144) | - | (171,844) | - | (176,988) | 1,109 | - | - | - | 1,109 |
| Provision of doubtful accounts | (464) | (293) | 6,557 | - | 5,800 | - | 141,000 | (2,211) | (78,000) | 60,789 |
| Stock based compensation | 359,338 | 327,110 | 315,596 | 262,222 | 1,264,266 | 292,334 | 293,825 | 336,913 | 356,735 | 1,279,807 |
| Write-off of publisher payable | - | - | - | - | - | - | - | - | - | 315,137 |
| Other, net | - | - | - | - | - | - | - | - | - | - |
| Change in operating assets and liabilities: | | | | | | | | | | |
| Accounts receivable and unbilled revenue | 1,944,137 | (250,317) | (1,008,384) | (1,268,518) | (583,082) | 2,740,326 | (680,496) | (2,296,908) | (979,533) | (1,216,611) |
| Prepaid expenses and other assets | 64,747 | 50,986 | 22,597 | 81,326 | 219,656 | 109,577 | (124,826) | 96,734 | (28,798) | 52,687 |
| Accounts payable | (2,411,075) | (247,496) | 628,475 | 1,407,548 | (622,548) | (2,844,928) | (583,470) | 2,328,706 | 1,536,933 | 437,241 |
| Accrued expenses and other liabilities | (299,033) | 4,105 | (54,941) | (71,006) | (420,875) | (989,738) | 434,059 | (411,874) | 298,012 | (669,541) |
| Other, net | - | - | - | (34,864) | (34,864) | - | - | - | - | - |
| Net cash provided by operating activities | 573,742 | (122,839) | 37,679 | 733,650 | 1,053,019 | (1,684,799) | (1,154,187) | (123,779) | 2,905,947 | (1,148,281) |
| Investing activities: | | | | | | | | | | |
| Purchases of equipment and capitalized development costs | (372,598) | (322,886) | (233,896) | (186,991) | (1,116,371) | (151,424) | (469,274) | (442,113) | (495,882) | (1,558,693) |
| Grant funds received for equipment and office construction | - | - | - | - | - | - | - | - | - | - |
| Net cash from NetSeer Asset Acquisition | - | - | - | - | - | 235,763 | - | - | - | 235,763 |
| Net cash used in investing activities | (372,598) | (322,886) | (233,896) | (186,991) | (1,116,371) | 84,339 | (469,274) | (442,113) | (495,882) | (1,322,930) |
| Financing activities: | | | | | | | | | | |
| Payoff of NetSeer debt acquired | - | - | - | - | - | (2,015,577) | - | - | - | (2,015,577) |
| Payments on capital leases | - | - | - | - | - | - | - | - | - | (158,782) |
| Deposit to collateralize letter of credit | - | - | - | - | - | - | - | - | - | - |
| Prepaid financing fees and other | - | - | - | 25,600 | 25,600 | - | - | 25,600 | - | 25,600 |
| Net taxes paid on RSU grants exercised | (11,952) | - | (128,790) | (63,094) | (203,836) | - | - | (97,376) | - | (97,376) |
| Proceeds from revolving line of credit | - | 3,750,000 | (3,750,000) | 7,950,000 | 7,950,000 | 3,600,000 | 1,400,000 | - | (100,000) | 4,900,000 |
| Payments on revolving line of credit | - | (3,750,000) | 3,750,000 | (7,950,000) | (7,950,000) | - | - | - | - | - |
| Proceeds from term note payable | - | - | - | - | - | - | - | - | - | - |
| Payments on term note payable and capital leases | (12,859) | (13,019) | (11,675) | (8,760) | (46,313) | (7,250) | (19,345) | (70,705) | 97,300 | - |
| Treasury stock repurchase | - | - | - | - | (22,499) | - | - | (44,772) | - | (44,772) |
| Net cash used in financing activities | (24,811) | (13,019) | (140,465) | (46,254) | (247,048) | 1,577,173 | 1,380,655 | (187,253) | (2,700) | 2,609,093 |
| Effect of exchange rate changes | - | - | - | - | - | - | - | - | - | - |
| Net change - cash | 176,333 | (458,744) | (336,682) | 500,405 | (310,400) | (23,287) | (242,806) | (753,145) | 2,407,365 | 137,882 |
| Cash, beginning of quarter | 4,257,204 | 4,433,537 | 3,974,793 | 3,974,793 | 3,974,793 | 3,946,804 | 3,923,517 | 3,680,711 | 2,927,566 | 3,946,804 |
| Cash, end of period | 4,433,537 | 3,974,793 | 3,638,111 | 3,946,804 | 3,664,393 | 3,923,517 | 3,680,711 | 2,927,566 | 5,334,931 | 4,084,686 |
| Supplemental information: | | | | | | | | | | |
| Interest paid | 18,063 | 16,466 | 20,556 | 17,666 | 72,751 | 25,317 | 79,745 | 75,734 | 88,164 | 268,960 |
| NetSeer stock issuance | - | - | - | - | - | 4,459,244 | - | - | - | 4,459,244 |
| Writedown of domain names and cont. liab. | - | - | - | - | - | 222,477 | - | - | 147,029 | 369,506 |
| Income taxes paid | - | 10,000 | 16,000 | - | 26,000 | - | - | - | - | - |
| Cash received from construction allowance | - | - | - | - | - | - | - | - | - | - |
| Purchase of property and equipment under capital lease | - | - | - | - | - | - | - | 523,518 | 6,889 | 530,407 |
| Purchase of intangible assets through a contingent liability | - | - | - | - | - | - | - | - | - | - |
| Stock issuance for partial settlement of cont. liability * | - | 300,001 | - | - | 300,001 | - | - | - | - | - |
| Write down of domain names due to partial settlement of cont. liability | - | 46,367 | - | - | 46,367 | - | - | - | - | - |
| Operating Cash Flow | 1,274,966 | 319,883 | 449,932 | 523,200 | 2,494,732 | (700,036) | (199,454) | (1,247,037) | 2,079,333 | 247,943 |
| Free cash flow | 902,368 | (3,003) | 216,036 | 336,209 | 1,378,361 | (851,460) | (668,728) | (1,689,150) | 1,583,451 | (1,310,750) |
| Adjusted EBITDA | 1,302,907 | 287,590 | 419,691 | 612,481 | 2,622,669 | (313,492) | 166,847 | 252,690 | 758,130 | 1,069,601 |

HISTORICAL STOCK PRICE



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