

ZEVOTEK

May 30, 2019

ZEVOTEK, INC.
(OTC – ZVTK)

Industry: Incubator/Corp Advisory

Price Target: \$0.77

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Opportunity to Invest in Pure Play Tech Incubator

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COMPANY SNAPSHOT

Zevotek, Inc., seeks investment opportunities in start-ups to provide funding, in addition to strategic business development assistance to include supplier & vendor management, software development, marketing, management and research & development. Zevotek will catalyze the growth of Market Disruptive & Game Changing Business in the IOT, Business Automation, Data Processing, Business Analytics & Connected Healthcare sectors.

KEY STATISTICS

Price as of 5/29/19	\$0.36
52 Week High – Low	\$0.70- \$0.02
Est. Shares Outstanding	16.1M
Market Capitalization	\$5.76M
Average Volume	33,226
Exchange	OTC

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

Zevotek offers savvy investors a unique opportunity to participate in an emerging incubator and business accelerator for early stage companies and start-ups, yet within the confines of a publicly traded stock. The Company's two investee companies in its portfolio offer disruptive solutions for large markets.

The Company's crown jewel is its 30% ownership stake in Dalos Technologies which is building a disruptive SaaS solution, targeting the B2B marketplace. Gartner predicts that the [SaaS market in 2019 will reach \\$85 billion](#) and grow to over \$113 billion by 2021 and the Dalos' near-term target market represents a \$435M opportunity by 2022.

Dalos' flagship, cloud-based SaaS product will eliminate revenue slippage from service contract renewals and generate profitable revenue streams for tech OEMs and integrators squeezed by declining product margins. Zevotek owns 30% of the company.

Zevotek owns 100% of a consumer audio products company, Blankki Products which is positioned to take advantage of a migration to affordable products.

Our 12-month target price is \$0.77 which is based on figures derived by KPMG regarding median private company valuations. This estimate reflects what we believe will be the combined value of the two Zevotek investee companies next year. This target could rise if new portfolio companies join the Zevotek family.

COMPANY OVERVIEW

Zevotek Inc. (OTC – ZVTK) offers savvy investors a unique opportunity to participate in an emerging incubator and business accelerator for early stage companies and start-ups, yet within the confines of a publicly traded stock. Based on the two current leading portfolio holdings, which target fast-growing, large industries with potentially disruptive technologies, Zevotek is positioned to emerge as a leading player in its space. The underlying companies are targeting the commercial and consumer sectors, respectively, each of which represent large underserved markets. Given the value of start-up companies at this stage and the exponential value gains enjoyed when reaching the next level, we believe that Zevotek's valuation will markedly rise over the next 12 months. Moreover, if management elects to make additional investments or acquisitions in new entities, it would be viewed as a catalytic event, thus driving value higher still.

The Big Picture

The Company's crown jewel is its 30% ownership stake in Dalos Technologies which is building a disruptive SaaS solution, targeting the B2B marketplace. Gartner predicts that the SaaS market in 2019 will reach \$85 billion and grow to over \$113 billion by 2021. DALOS is developing SWAP (Service Renewal Automation Platform) which seeks to fulfill a key unmet need inside of an underserved market. Today, automated, multi-million-dollar service agreement renewals associated with typical large-scale projects surrounding industrial and technological equipment fall through the cracks. As SWAP is deployed, Dalos is paid on a usage basis per asset associated with the service contracts and the renewals are secured by Dalos clients, who no longer lose revenue. Based on industry estimates derived from Blumberg Advisory Group reports, the market will grow from \$163M in 2017 to \$435M in 2022, a very healthy 21.7% CAGR. Given the Company's SaaS model, once its product begins meaningful commercial deployment in 2020, enviable operating profitability can be quickly achieved given that companies in this space tend to carry operating margins north of 50%.

Zevotek recently acquired 100% ownership of emerging, affordable consumer audio equipment provider Blankki Products, whose offerings are just now beginning to be introduced to the marketplace. The migration to affordable earphones and headphones plays to the Company's strengths and is an interesting diversification from Zevotek's core holding, Dalos. The products are curated from Asian manufacturers that provide great parts for lower prices based on order sizes. We believe that as part of a roadmap, targeted distributors may be brought in as partners to drive awareness and sales.

The Valuation

An April 2019 KPMG Venture Capital Pulse Report states that the current median pre-money valuation for seed stage funded companies is \$8 million. Clearly, Zevotek's Dalos Technologies holding is in the midst of preparing for the introduction of its solution, which, when key deployments and implementations occur, will result in a substantial gain in valuation. Meanwhile, we believe that the current progress of this holding, size of its target client segment, and the disruptive nature of SWAP in a large underserved market warrants a value of \$10 million as a whole and is worth \$3.0M to Zevotek today.

Looking ahead, Zevotek will likely launch a funding round in the next 12 months for full-scale sales, marketing and deployment purposes. According to the same KPMG report, the median pre-money valuation of the next

round of funding is \$22M. We proffer that considering the transformative nature of the Dalos model, it could be worth \$22M in a year's time, or \$6.6M to Zevotek. Based on the current shares outstanding, if Dalos is valued at this level, its worth to Zevotek would be \$0.41 per share, above the current share price. Considering SaaS companies can trade up to 10x revenue, this figure may prove conservative, if implementation is swift.

As to Blankki products, which is wholly owned, its industry tends to not be valued at nearly the level of SaaS companies. Thus, we believe it could be worth \$6-8M (or \$0.36) in 12-18 months, equivalent to a seed round stage company. Our \$0.77 target price is reflected in the projected combined value of these firms to Zevotek, on a per share basis.

THE ZEVOTEK APPROACH

Backed by investors, technology experts and financial managers, Zevotek and its principals seek to catalyze the growth of market disruptive and game-changing business in the IOT, Business Automation, Data Processing, Business Analytics, and Connected Healthcare sectors. Through its contacts in the investment and tech communities, the Company discovers early-stage firms that have market penetration and disruption potential. Thus, management invests in and supports them as the incubator from an early stage. Zevotek and its network of partners provide business plan development, market research, product prototyping, product development, marketing, administration, and supply chain management services. Funding services include seed investment, research and development and purchase order fulfillment. All of these services are classic components of the incubator/business accelerator model.

SWAP: By Dalos

Dalos' flagship cloud-based solution SWAP, provides integration with OEMs, VARs, distributors and asset management ERP/CRM systems to allow for a fully automated quote to cash workflow. OEMs, manufacturers, integrators and others have traditionally placed annual service contracts on the hardware and software assets that are sold to the commercial and governmental sectors. While the first-year's service contract is always part of that purchase price, service renewals for these same assets fall through the cracks, thereby reducing revenue the companies can ill afford to lose, especially in light of ever-shrinking hardware margins. These contracts (usually priced at 5-10% of the value of the asset) are arguably the most profitable part of their respective businesses.

In most cases, using outdated modes of communication and not being productive on this front have served as Achilles' heels. Enter the Dalos technologies SWAP (Service Renewal Automation Platform). As its name suggest, it is an automated system designed to substantially improve renewal rates. Dalos integrates leading CRM and ERP solutions to include Oracle and SAP across hardware solutions that include those from HP, Dell and Samsung, to name only a few CRM, ERP and hardware compatibilities. The Company's low-hanging fruit includes computer, computer equipment and networking companies.

Currently, the principals at Dalos and Blankki are gearing up for product deployment and sales next year and will contribute a few hundred thousand to complete any necessary product development and sales teams build-outs.

RISK FACTORS

In our view, ZVTK's biggest risks relate to the timing and magnitude of product development and sales of its two portfolio companies. Sales ramps for early stage firms, even those serving unmet needs of large markets, can be inconsistent, especially if the offerings are not well received by the target markets. An additional risk relates to potential funding of these companies and prospective funding or acquisition of new targets next year and beyond. Even in the same industries, cross-sale opportunities are not always readily available, and the magnitude of such events. Other risks include greater efficacy or more favorable pricing of products by competitors of varying sizes, features and domiciles, including new entrants seeking to engage in a roll-up as well, thus driving up prices and making execution a challenge. Still, these risks are typical future concerns and are also consistent with firms of ZVTK's size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the stock market, especially those that are generating little revenue. Finally, the shares outstanding of this stock could increase due to potential capital needs or to execute future acquisitions. However, since the proceeds of any future funding would be used in large part to advance M&As, or the underlying investee companies, we believe that any dilutive effect from such a funding would be more than offset by related increases in market value.

CONCLUSION

Zevotek offers savvy investors a unique opportunity to participate in an emerging incubator and business accelerator for early stage companies and start-ups, yet within the confines of a publicly traded stock. The Company's two investee companies in its portfolio offer disruptive solutions for large markets. The Company's crown jewel is its 30% ownership stake in Dalos Technologies which is building a disruptive SaaS solution, targeting the B2B marketplace. Dalos' near-term target market represents a \$435M opportunity by 2022.

Dalos' flagship, cloud-based SaaS product **will** eliminate revenue slippage from service contract renewals and generates profitable revenue streams for OEMs, distributors and integrators squeezed by declining product margins. Zevotek owns 30% of the company. Zevotek also owns 100% of an emerging consumer audio products company,

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SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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